

5 Reasons why Telcos need a Converged OTT Video Strategy



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Introduction

Deutsche Telekom's CEO Timothy Hoettges in August 2015 announced that the company plans to be a "content aggregator" rather than an exclusive media rights-holder and will use its forthcoming launch of a new TV platform to support its aggregator strategy.

Speaking to analysts after the company reported quarterly earnings Hoettges said:

"Telekom's main aim was to make life simpler for consumers by acting as an aggregator for the proliferating online video services and TV channels available, making as much as possible available via a single platform."

He said that Telekom had a "partner strategy" for video, and that "our new TV platform, which is out soon, supports this idea".

In this eBook we explore the 5 key reasons why Telecommunication Companies like Deutsche Telekom are opting to become a "content aggregator" in preference to being a traditional media rights holder.

The five reasons addressed are:

- 01** Explosion in customer demand for video content
- 02** The most profitable customer segments are using OTT video
- 03** Mobile is now seen as the first screen
- 04** Eliminate expensive upfront VoD development costs
- 05** Ensure financial predictability in terms of revenue and costs

The book is designed to be informative and concise. It contains the latest industry trends, and data. We hope you find it interesting and helpful.

01

A customer that uses their mobile to watch standard quality video on a 4G network for 30 minutes a day can expect to use up to 4GB a month.

Switch up to HD video and this figure goes up to 15GB a month.

Telcos are experiencing an explosion in customer demand for video content

The world of television has moved decisively and irrevocably from “prime time viewing” to the more convenient “my time viewing”. That means Telco customers now demand and expect to be able to consume content anytime, anywhere - on any device, and service providers are responding: notably over-the-top (OTT) players including Netflix, Amazon, Hulu, Apple and Google, are all providing premium video content on exactly those terms

And this explosion in multi-screen video viewing is reflected in Ericsson’s latest Mobility Report (June 2015), forecasting that general mobile video is set to increase by a staggering 55 percent annually through to 2020, when it will account for 60 percent of all data traffic on mobile networks.

Globally, faster networks, more bandwidth and an increasing number of smart, large screen devices are helping to fuel the mobile video explosion. When it comes to OTT video many Telcos are adopting the strategy that if you can’t beat them join them. Or to be more precise if they can’t beat them then the next smartest thing is to leverage the OTT content for the Telcos benefit. Just like Deutsche Telekom’s “content aggregator” strategy.

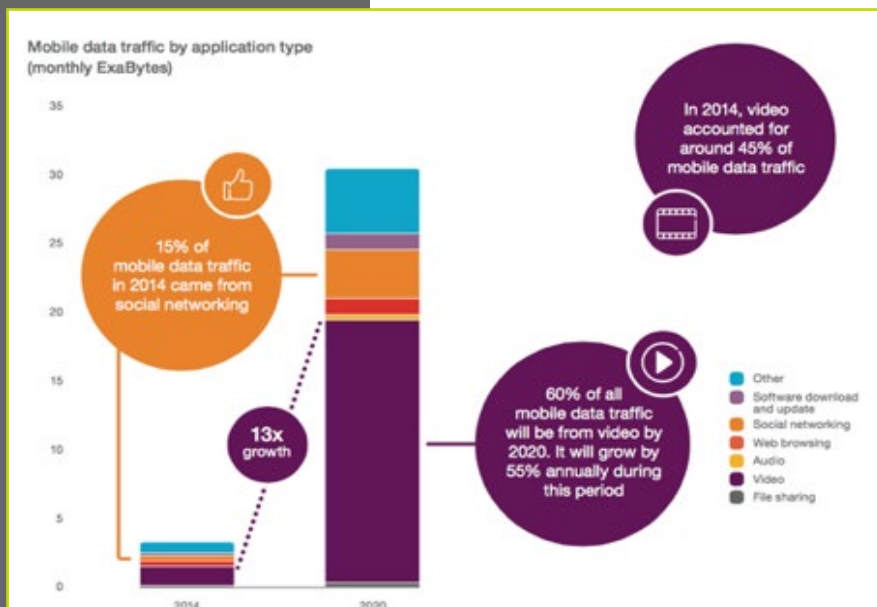


Fig 1: Video to account for 60% of all data traffic by 2020. (Ericsson June 2015)

According to an interesting White Paper entitled Content and OTT Partnerships published by OPENNET in October 2014 a customer that only uses their mobile for watching standard quality video on a 4G network for 30 minutes/ day can expect to use up 4GB/ month. Switch up to HD video and this figure goes up to 15GB/ month.

This explosion in consumer demand for video, the majority of which is OTT based, puts enormous pressure on Telco’s networks to deliver the appropriate bandwidth. So the big question for Telcos, is what is the best OTT video strategy?.

02

VoD Audience

31%

of users aged between 18-34

TV Audience

48%

of users aged 50 and up

17%

of users aged between 18-34

Your most profitable customers are using OTT video

According to research conducted by Nielsen in the US in September 2014 Video-on-demand (VOD) users tend to be younger than traditional TV users and more likely to live in families with kids. Nielsen's findings indicate that VOD's audience is heavily skewed towards the under-50 crowd, with a plurality 31% of users aged 18-34. By comparison, 48% of TV users are aged 50 and up, while just 17% are in the 18-34 bracket.

While TV and VOD users don't differ much in their ethnic distribution, the Nielsen report does indicate that there's a substantial difference when it comes to high-income households. Indeed, fully 31% of VOD users earn more than \$100,000 per year, compared to 21% of the TV audience.

Additionally, the VOD audience is more likely to have high speed internet (88% vs. 75%) and to own a tablet (34% vs. 26%).

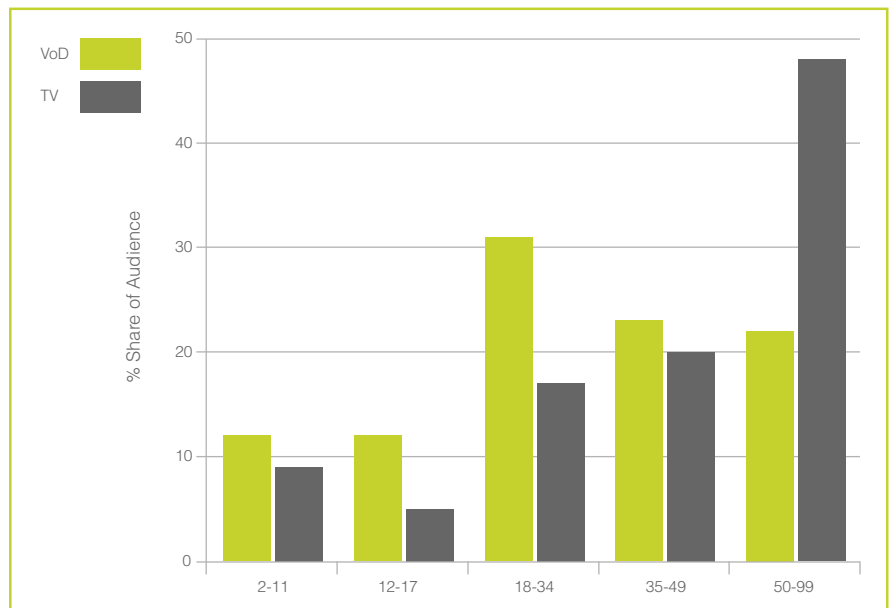


Fig 2: Age Distribution of TV and VoD users. Source: Nielsen September 2014

The four key demographics when it comes to OTT video usage are:



Millennials / Generation Y

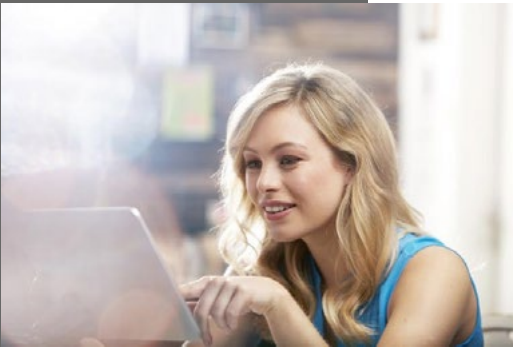
Members of Gen Y grew up with the Internet and mobile phones as a given. They are early adopters of new internet based services and see continuous connectivity as their right — there for them any place, anytime. Their media viewing habits are no different: They expect access to content whenever they want it, delivered to any screen they choose.

In a 2015 report by Horowitz Research, Multiplatform Content & Services. The study finds that among Internet users overall, 51% have access to an OTT SVOD service (i.e., Netflix, Hulu paid, or Amazon Prime Instant Video), rising to 75% among Millennials. In fact, Millennials are three times as likely to have an OTT SVOD service and no multichannel service and nearly half (48%) report spending more than 50% of their viewing time streaming.



Generation X: 34 - 45 years of age

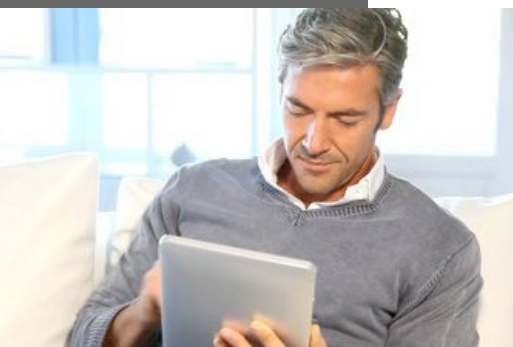
Generation X tops the list of owners of at least two screen devices, making the multi-screen viewing habit a norm for this generation. Smartphones are the most important screen devices due to their individualism. They are also the segment that own more tablets and Apple devices compared to the other segments.



Generation V: Women 25 - 49 years of age

Women aged 25 - 49 are amongst the largest users of VoD services, they are the family media managers and love being in control of their and their children's media experience.

They have radically shifted their media habits to accommodate new devices and platforms that fit into their families' lifestyle. They watch online video for information, entertainment and exploration – across devices and often as a shared experience.



Boomers: 46 - 54 years of age

Boomers have not grown up with publicly available internet and wireless technologies. However, they have become avid users of these offerings and relevant internet based services which includes VoD.

Younger Boomers are reaching their earning prime, giving the money to spend of media technology and video services.

03

This is the first time that time spent on mobile screens has surpassed time spent watching TV, according to data released by the Yahoo-owned mobile analytics service Flurry.

“The TV industry will have to work on a mobile-first strategy. Not a digital-first strategy, but a mobile-first strategy, because mobile is now the first screen, and it’s taking time away from the TV.”

*Eric Scherer - Director France
Télévision*

Mobile is now the first screen

From smartphones to tablets, today’s technology is changing rapidly. The recent proliferation of new devices allows consumers to connect with content anytime and anywhere. According to TDG research the future of TV is App based and not set top boxes. New OTT app-based video services are set to flood the market in 2015 and 2016, pushing more high-quality video to the mobile masses.

As this happens, viewing share will shift from television to devices like smartphones and tablets, both within and beyond the home. This means a turn from legacy to broadband delivery.



The days of the television being the ‘first screen’ we turn to for entertainment are over. A study by the US Bureau of Labour Statistics has found the TV has been officially replaced by smartphones and tablets - a trend that has been on the increase for the past two years. In the US for example people now spend an average of two hours and 57 minutes each day on mobile devices and, which is up 9.3 per cent from just nine months

ago. In comparison, the time spent watching television has stayed the same since 2012, at two hours and 48 minutes per day.

This is the first time that time spent on mobile screens has surpassed time spent watching TV, according to data released by the Yahoo-owned mobile analytics service Flurry. ‘Smart devices are practical, and are glued to consumers 24/7/365,’ the San Francisco-based group wrote. ‘Those factors, combined with the content explosion on these devices through apps like Netflix, YouTube and Hulu, helped mobile snatch the big prize from television.’

04

Eliminate expensive upfront VoD development costs

Investment in new technologies and architectures ultimately depends on the anticipated return on investment. Telcos while clearly bullish on the importance of Video on Demand for their business - are still struggling to develop an effective way to monetise their VoD service. In this chapter we outline a new smart approach to launching a converged VoD service.

It is critical that if a Telco provides their own VoD service they provide their customers with the ability to access a large majority of preferred content, live or on demand, at any time, on any device of their choosing. The multi-screen VoD experience requires a number of elements, including a consistent yet device-optimized UI and experience, multi-screen time shifting capability, personalisation and the ability to pause and resume seamlessly from device to device. To bring this level of offering to market is not cheap. In October 2014 the US premium cable network Starz announced that it planned to launch a subscription based Video on Demand service with similar functionality to that outlined above. Their initial investment is budgeted at US\$20 million.

There's an easier way: Vennetics K-Box "One Stop VoD Search"

Vennetics makes Video on Demand (VoD) easy. We're integrated with the leading and most popular Video on Demand (VoD) providers such as Netflix, iTunes, Amazon Prime and Hulu to name a few.

The K-Box solution addresses this issue directly by providing a single advanced search capability that spans all of the major on-demand catalogues. Vennetics provides your customers with the easiest way to find the Movies and TV Shows they want to watch with a one-stop search facility across all the VoD and TV catalogues available in a specific market. The system not only provides for very fine-grained search criteria to be defined but also presents an immediate price comparison of results across the available sources for the same title.

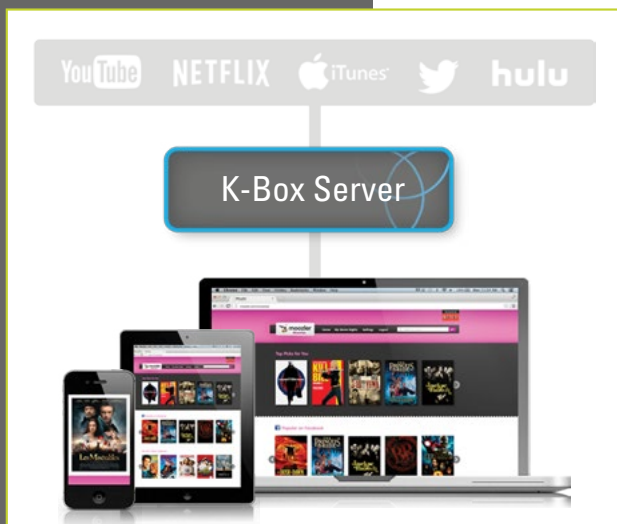


Fig 3: Vennetics K-Box Server

Our innovative converged OTT approach removes the complexities and cost normally associated with VoD; such as transcoding for proprietary clients, enforcing strict digital rights management, and the need to purchase expensive movie and TV content from studios. Vennetics leverage the content from the leading VoD providers and works closely with Telcos to deliver a Video on Demand service that will exceed the evolving entertainment and communication needs of your customers.

05

VoD Licensing Costs

As high as

\$4

per new movie
per play

Ensure financial predictability in terms of revenue and costs

Competing in the VoD market is extremely challenging. In the US in October 2014 Verizon announced it was shutting down its Redbox Instant, streaming video service. The service, which combined the Redbox DVD rental kiosk business with a streaming video offering from Verizon, was launched in 2013 to compete against online video company Netflix but never caught on with consumers.



To launch and operate a VoD service bulging with the latest Hollywood Blockbuster and TV shows is an extremely expensive proposition with costs running into the millions of dollars.

One of the major reasons why Netflix has started to create its own content is the fact that the licensing costs for new content are so high. Studios are still greedy, and charge licensing costs as high as \$4 per new movie per play.

Many mobile operators have looked at launching their own VoD service, but the business case simply hasn't stacked up despite the fact that the vast majority of data traffic over their networks is now video.

Buying an OTT solution rather than building one helps to maintain cost predictability throughout the length of your deployment and can offer customisation and new features that fit with your customers viewing demands and your revenue goals.

The K-Box application from Vennetics for example, allows for a direct revenue stream to be created from the commercial activity initiated at the site. For example, T-VoD services typically provide a direct sales commission through their affiliate programs. That is, if a user discovers a title through the K-Box storefront and subsequently buys or rents that title from iTunes, then Apple will pay a commission on this purchase.



Conclusion

Launching a successful OTT video solution today presents many challenges and opportunities. The smart Telcos have realised that buying a solution versus building it from scratch offers the best foundation for OTT success today. While operators like Deutsche Telekom are a step ahead and have realised by providing a Converged VoD solution that they are ensuring success today and tomorrow.

Launching a Converged VoD solution delivers the following benefits for a Telco:

Drives customer engagement and creates new value:

Bundling a Converged VoD solution with your broadband offering makes sense as it enhances your overall broadband proposition and is relevant for a large segment of your customer base.

Increases customer satisfaction and reduces churn:

When implemented correctly, multiscreen video services have been shown to boost customer satisfaction and reduce churn.

Defends against rival services and protects your revenue:

Service providers' own video services negate the threat posed by similar services from rival providers, i.e., broadcasters, cable networks and Internet distributors.

Addresses potential shifts in viewing patterns within new generation:

Traditional TV viewing is starting to be replaced by online viewing. This means that Telcos need to evolve with their customers viewing habits or lose out.

Creates new revenue opportunities:

Telcos will be able to generate significant new revenue from multiscreen video.

About Vennetics

Contact Us

The Business Centre,
Blackthorn Business Park,
Coes Rd,
Dundalk,
Co. Louth,
Ireland

✉ info@vennetics.com

☎ +353 42 941 9669

🌐 www.vennetics.com



Vennetics makes Video on Demand (VoD) easy. We're integrated with the leading and most popular Video on Demand (VoD) providers such as Netflix, iTunes, Amazon Prime Instant Video, Hulu, Google Play to name a few. This enables us to provide a white label, multi-screen VoD solution powered by the latest movies and TV shows..

Our innovative converged OTT approach removes the complexities and expense normally associated with VoD; such as transcoding for proprietary clients, enforcing strict digital rights management, and the need to purchase expensive movie and TV content from studios.

We leverage the content from the leading VoD providers and work closely with you to deliver a Video on Demand service that will exceed the evolving entertainment and communication needs of your customers.

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