

mtm

Prospects for Premium OTT in the USA

A snapshot of industry perspectives on the
evolution of the market

July 2015

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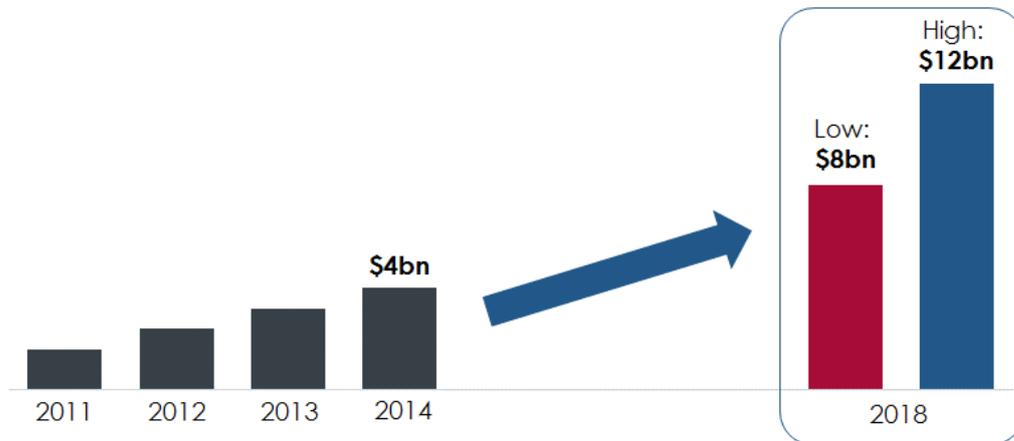
1 Executive Summary

Premium OTT services – subscription film and TV services delivered over the open internet to connected devices – are proliferating in the USA. How do industry participants believe the market and competitive environment will develop through to 2018? What are the prospects for growth and what factors will drive or hold back the market? Which categories of OTT provider are most likely to succeed?

Key findings

US industry participants envisage a period of significant sustained growth in the premium OTT market, driven by intense competition, significant investment and the launch of new services, including a wide range of niche or specialist offerings. Premium OTT revenues are expected to grow from \$4bn¹ in 2014 to between \$8-12bn in 2018, with Netflix remaining the largest single mass-market provider. Niche services, complementing more generalist pay-TV or OTT offerings, are also expected to proliferate – industry participants envisage 15-20 specialist OTT providers acquiring 100,000 or more paying subscribers by 2018, with many more attracting smaller numbers of subscribers.

Exhibit 1: Market size forecasts for premium OTT in 2018



MTM's research study also found that:

- Industry executives believe that the **underlying enablers for premium OTT services – broadband, connected devices, and payment infrastructure – are largely in place** and are sufficient to support rapid growth in the next few years. Growth prospects for premium OTT offerings could be further enhanced by greater availability of public WiFi, increased penetration of tablets, connected TVs and streaming media players, improved device interoperability, and standardisation between heterogeneous client platforms, although there are significant uncertainties about the rate and pace of change in these areas.
- Many of the **technical barriers to developing a premium OTT service have come down** in recent years, as off-the-shelf components and scalable cloud-based services and infrastructure have become more widely available. However, integrating components from different vendors, sourcing large volumes of attractive premium content, and acquiring and retaining paying subscribers remain important challenges for mass-market and niche providers alike.

¹ Digital Entertainment Group (2015). Excludes premium OTT offerings bundled with other services, such as Amazon Prime.

- Mass-market OTT services are set to proliferate, as pay-TV providers, studio-broadcasters and technology companies enter the market. However, most industry participants believe that **the market will continue to be dominated by a small number of major OTT service providers, most likely the existing incumbents** with established subscriber bases and strong positions in the market. The main barriers to entry for new entrants are believed to be access to large volumes of differentiating, exclusive premium film and TV content, an ability to attract new customers, and an ability to sustain substantial investment over time.
- There is a strong consensus that **Netflix will remain the largest single premium OTT provider** in the USA, although industry participants expects its share to decline from c.85% of the market in 2014 to around 50% in 2018, as other providers gain traction.
- Industry participants are also **optimistic about the prospects for niche OTT providers**, especially those targeting existing fan-bases. Many of these services are likely to be bundled with wider subscription or membership offerings and marketed and retailed through third-party distribution platforms. Major areas of opportunity with significant growth potential are expected to include sports, kids, specialist film and TV (e.g. anime, foreign drama), expat and ethnic services (e.g. Korean, Hispanic) and personality-based offerings (e.g. politicians, comedians).
- Interviewees anticipate that **bundling and through-the-middle distribution deals between OTT providers and MVPDs will become increasingly common**, as OTT providers seek access to new customer bases and MVPDs look to court cord cutters and cord nevers. Although most OTT distribution deals to date have involved major service providers like Netflix and Hulu, niche services are also expected to be more widely distributed through MVPDs during the next few years, under a variety of different models: as packages combining a variety of specialist offerings (e.g. science fiction, fantasy and anime content); retailed à la carte, through set-top box marketplaces; and bundled with event tickets and PPV content.
- Increasingly, industry executives expect **pay-TV and premium OTT to converge into a single market**, with OTT distribution deals and more flexible, lower-priced packages attracting younger adults and millennials to take up services from traditional MVPDs.

2 Background to the study

In May 2015, Ooyala and Vindicia commissioned MTM to explore the prospects for premium OTT services in the USA. The project followed a similar research programme undertaken in Europe in November 2014, exploring the growth and development of premium OTT services in the UK, Germany and the Netherlands.

As in Europe, the US research was structured around a form of the Delphi technique, a widely-used approach for developing forecasts and predictions about the future. Initially, MTM analysed a wide range of data about the development of the US premium OTT market and conducted in-depth interviews with 10 senior executives with knowledge of the industry.

Drawing on the findings from the initial research steps, MTM then developed an analytical framework to structure two specially convened seminars, held in Los Angeles and New York in early June 2015. The seminars were attended by a diverse group of key executives from across the technology, media and entertainment industries, including studios and broadcast networks, rights holders, leading multichannel video programming distributors (MVPDs), mass-market and niche OTT providers and online video businesses, producers, and investors. Overall, 45 experienced executives took part in the research programme, providing a broad range of perspectives about the prospects for premium OTT in the USA.

Unless otherwise attributed, all quotations in this document come from the programme of industry depth interviews and the two Delphi seminars. All interviews were completed under the Chatham House Rule (no attribution without prior permission), and participants were speaking as individuals and not as company representatives. Inevitably, this paper provides only a partial view of a highly complex industry – it represents a snapshot of industry perspectives at a particular moment in time.

Future research and workshops will be scheduled during the course of 2015/16, to explore changing industry perspectives, as premium OTT services continue to grow and develop internationally.

MTM, Ooyala and Vindicia would like to thank all those who contributed to the research for their input and insights:

Exhibit 2: Research participants

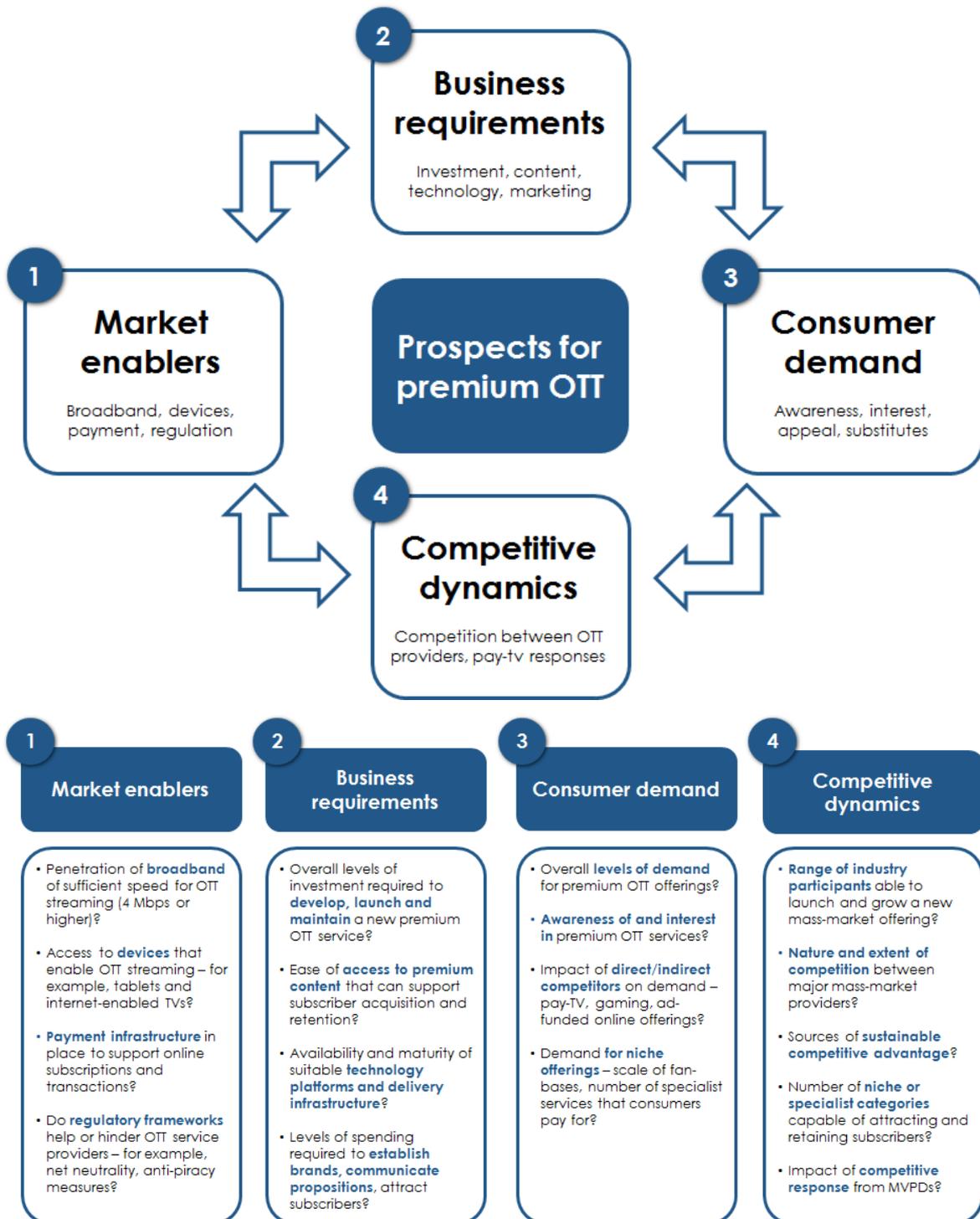


The opinions expressed within this paper are solely those of the authors and reflect MTM's judgement at the time, based upon the available information. These views do not necessarily represent the views of the interviewees and contributors. Any errors or mistakes are entirely the responsibility of the project team.

3 Exploring market developments – a research framework

MTM's research programme and the Delphi seminars were structured around a simple four-stage framework, designed to support analysis and exploration of the various factors likely to impact the prospects for premium OTT in the US market.

Exhibit 3: Research framework



We have provided additional information about the framework in Appendix B.

3.1 Categories of OTT service

At a high level, industry participants distinguish between two broad categories of premium OTT offering and envisage a distinct set of industry participants delivering each category of service.

Mass-market services

Mass-market services are offerings focused on providing general film and TV entertainment content, typically targeting mainstream audiences. As the market develops, the major premium OTT aggregators – Netflix, Hulu and Amazon – are set to face increased competition from various incumbents responding to OTT disruption:

Type of provider	Examples
MVPDs and incumbent pay-TV providers launching standalone, unbundled OTT services and TV Everywhere offerings	 
Major studio-broadcasters, leveraging existing content libraries to provide direct-to-consumer offerings, independent of pay-TV affiliates	 
Consumer technology companies or media platform providers, such as Sony PlayStation, diversifying into subscription services, with services often related to specific device universes or operating systems.	

Niche services

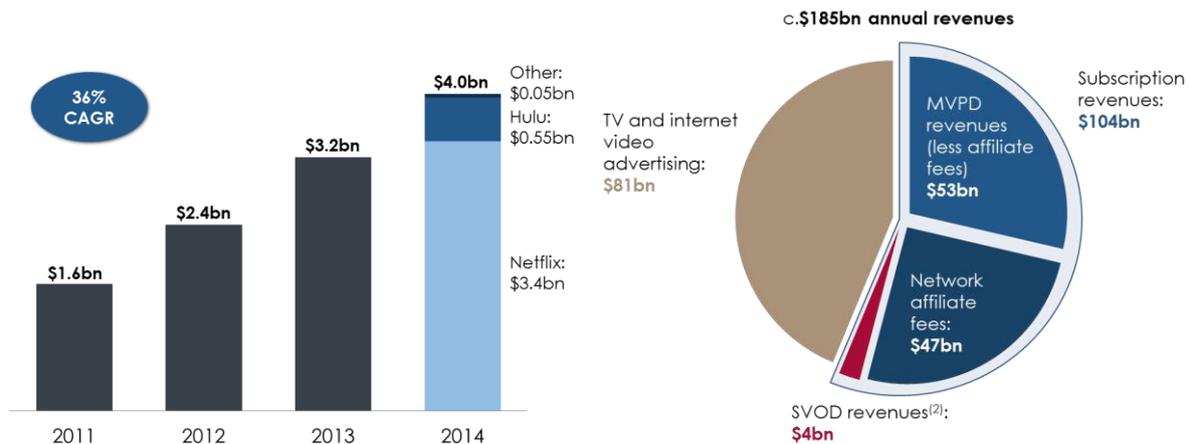
A wide range of niche services are gaining traction across the US market, targeting well-defined audience segments or fan-bases – often providing access to content that is hard-to-find and access and unavailable on mass-market platforms. Categories of provider include:

Type of provider	Examples
Independent aggregators, typically specialising in a particular genre and targeting established communities of interest	
Sports bodies and events rights holders, leveraging OTT services to super-serve fans, extend the reach and life-cycle of pre-existing events and/or disintermediate traditional pay models by going D2C	 
Studio-broadcasters with access to specialist libraries of film and TV content, offering depth and breadth in a particular genre	
Hyperniche offerings, often produced with prosumer video equipment and distributed on third-party platforms.	

4 Market context

The US premium OTT market has seen strong growth over the past years, largely driven by Netflix, Amazon and Hulu. In 2014, the market was worth \$4bn (excluding Amazon Prime Instant Video), having grown at a CAGR of 36% between 2011 and 2014.

Exhibit 4: Value of the US SVOD market² and total US video market (2014)³



By the end of 2014, 40.3% of US TV households were subscribing to at least one premium OTT service⁴. However, SVOD revenues – around \$4bn – comprised only a relatively small share of the wider TV and video market, estimated at around \$185bn in 2014⁵.

4.1 What factors have supported the growth of premium OTT in the US market?

The rapid growth and development of premium OTT services in the US market has been supported by a combination of factors, including:

- **Wide availability of broadband infrastructure.** The USA is highly developed in terms of broadband penetration (77%)⁶ and connected devices (75% smartphone penetration, 44% tablet penetration in 2014)⁷, enabling rapid uptake of new connected services.
- **Consumer willingness to pay for content.** The TV market is characterised by a limited supply of publicly-funded content, with the large majority of US households subscribing to some form of pay-TV service. Pay-TV services are also among the most expensive in developed countries, creating opportunities for premium OTT services to undercut established services on price and encouraging consumers to trial and sample services.
- **Scale and wealth of the US market.** The US is the one of the world's largest and wealthiest single markets, making it easier for major internet companies and online service providers to build domestic scale quickly without having to expand internationally.

² Digital Entertainment Group (2015). Excludes premium OTT offerings bundled with other services, such as Amazon Prime.

³ Pacific Crest (2015)

⁴ Nielsen, *Total Audience Report* (2015)

⁵ Pacific Crest (2015)

⁶ 2014 figure. OECD Broadband Portal (2015)

⁷ Consumer Electronics Association (2014)

- **World-leading media, entertainment, technology and startup ecosystems.** The US is a leader in media, entertainment and technology, with a wide range of companies operating from Los Angeles, San Francisco, San Diego, New York and Seattle. Similarly, Silicon Valley remains unsurpassed as a hub for internet start-ups, benefiting from its concentration of talent and capital, strong feedback loops and an entrepreneurial culture. These overlapping ecosystems have helped to facilitate collaboration and competition, stimulating innovation and experimentation in the provision of premium OTT services.
- **Netflix's success in the US market.** Most industry participants acknowledge that Netflix's successful transition from a DVD-by-mail business into a leading online SVOD provider has played an important role in stimulating interest and investment into the premium OTT market. In particular, major studio-networks, pay-TV providers and technology companies have been keen to compete with Netflix, to defend their existing businesses and to capitalise on growing consumer demand.

5 Market enablers

- **The main underlying enablers for premium OTT services are perceived to largely be in place in the US market and are capable of supporting strong growth during the next few years.**
- **However, growth prospects for premium OTT could be further enhanced by increased penetration of tablets, connected TVs and streaming media players, improved device interoperability, greater availability of public WiFi, and standardisation between heterogeneous client platforms.**

Industry participants believe that the **underlying enablers for SVOD OTT services – broadband, connected devices, and payment infrastructure – are in place in the US market** and are sufficient to support growth in the premium OTT market during the next few years:

- Broadband of sufficient speed is widely believed to be available to the majority of the US population: *“Nearly everyone can get fast enough broadband, but some providers are expensive – we are seeing some improvement with new entrants and more competition. Public WiFi is also becoming more widely available, which is helpful – but not really transformative for subscription OTT.”*
- Industry participants have also been encouraged by recent net neutrality legislation passed by the FCC, classifying broadband as a utility and preventing broadband providers from blocking or throttling traffic, previously seen by many as a significant barrier to growth for OTT services. Although there are still uncertainties about implementation, industry participants generally appear positive about the future: *“Net neutrality was a great victory for OTT providers – it will encourage investment and support growth.”*
- US penetration of connected media devices such as tablets and smartphones is already relatively high by international standards and is still climbing, albeit at a slowing rate: *“Tablets have been a major growth driver – every Christmas, we see a huge increase in tablet traffic. Most consumers who are going to subscribe to the bigger services already have tablets and smartphones – over half of US households have a tablet. That’s enough penetration to get the OTT market going and there’s still room for growth.”*
- There are a wide variety of payment options available for online purchasing and recurring payments – credit and debit cards, direct debit, gift cards and alternative payment solutions such as PayPal and Amazon Payments: *“Online purchasing isn’t a big issue, people are happy to spend money online and most are able to do it.”*

Going forwards, industry participants believe that the **growth prospects for premium OTT could be further enhanced by future market developments** in four key areas:

1. As of 2012/3, around 80% of all US households were covered by higher-speed broadband services and over 90,000,000 households had broadband subscriptions, the largest number of broadband

subscribers in the OECD⁸. However, nearly a quarter of US households do not currently have broadband and penetration of superfast broadband fiber connections remains relatively low – as of Q2 2014, only 9% of US broadband households had fiber connections⁹. Industry participants are generally optimistic that US broadband speeds and take-up will improve during the coming years, with government agencies setting ambitious targets for superfast broadband through to 2020 and major broadband providers planning to roll out higher-speed residential internet services in 2015/16. Taken together, these developments should have a positive impact on the OTT market: *"Broadband is getting faster, cheaper and more reliable. The rollout of fiber optic networks will boost the [OTT] market – it'll bring TV-like services to more people. Quality really matters."*

2. There is a widespread expectation that growth in the penetration of broadband-connected TV sets (via Smart TVs, OTT streaming devices, games consoles, next-generation set-top boxes, and other devices) and increased standardisation in client platforms should help to growth the premium OTT market through to 2018: *"There is a real lack of standardisation for connected TVs at the moment. It's a lot like building mobile apps in 2006 – but standardisation is happening. In the future, the relative cycle time of technology and set-top boxes makes me think that most TVs will just be monitors – with the tech either plugged in or cast from laptops and mobile phones."*
3. Similarly, industry participants believe that there are opportunities for new connected devices, like VR headsets, to roll out quickly over the next few years: *"Tablets are common now but were only introduced in 2010. The time it takes for new devices to go from introduction to widespread use is shortening – there is potential for new devices to be introduced now and to have a significant impact on the OTT market in 2018."*
4. Finally, some interviewees argue that new payment systems could make it even easier to subscribe to digital services, as well as supporting new OTT pricing models: *"There are lots of new payment systems coming online and more are being introduced all the time – like digital tip jars and Apple Pay. It has to help the market develop and grow – and could make it easier to offer new kinds of pricing, like day-passes and online-offline bundles."*

⁸ FCC International Broadband Data Report (2015)

⁹ 2014 figure. OECD Broadband Portal (2015)

6 Business requirements

- US industry participants believe that many of the technical barriers to developing a premium OTT service have come down significantly in recent years, as off-the-shelf components and scalable cloud-based services and infrastructure have become more widely available.
- However, integrating components from different vendors and delivering high-quality services across a fragmented device universe remain challenging
- For mass-market services, acquiring content rights to a critical mass of high-quality popular TV content is widely perceived to have become more challenging, as much of the most attractive content has already been licensed.

6.1 Mass-market services

During the course of the research programme, various interviewees emphasised the importance of three interrelated requirements underpinning the success of new mass-market OTT services:

1. Securing access to a critical mass of premium film and TV content with mass-market appeal
2. Establishing a unique selling point or point of differentiation from existing OTT providers and pay-TV offerings, in terms of exclusive, differentiating content, low prices or distribution relationships
3. Integrating the various technical components required to deliver an OTT service and developing high-quality user interfaces and experiences.

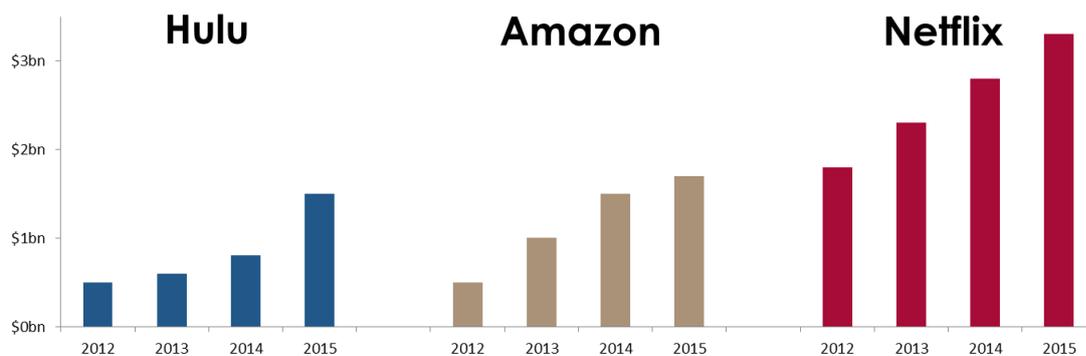
Most industry participants believe that **developing a critical mass of premium content with mass-market appeal, such as original content or early-window film and TV content, is becoming harder** – existing content libraries have largely been licensed and the cost of new premium content is increasing:

- Most industry participants believe that mass-market OTT services will require access to large volumes of high-quality scripted drama and comedy to attract and retain subscribers: *“Scripted drama and comedy are the most important genres for premium OTT. The content will be binge-watched and therefore needs to be relatively timeless, and you need a lot of it. Game shows and documentaries aren't going to deliver what you need. You need a lot of content or dozens of channels to attract and retain subscribers.”*
- With increased competition, premium content costs are widely believed to be rising: *“Even though there is more content available, more players want access to the very best top-tier content and prices are rising, for licensed shows and for originals. Netflix is investing very heavily in new shows, spending as much per episode as HBO and Showtime – I don't see many other new entrants being prepared to step up and spend that much money.”*
- Many studios are locked into long-term content deals, making it harder to quickly license a critical mass of attractive content: *“Right now, you would struggle to amass massive quantities of really good premium content, going the licensing route. There's definitely content available from the big studios, but can you get 1,000 good film titles or 50 great TV series? It would take a lot of time and*

money to build up the volumes you'd need to launch a mass-market service, if you're starting from scratch. On the other hand, the studios would love to see a major new OTT buyer, especially as Netflix focuses more on origination, so you might get lucky."

- Some industry participants also note that incumbent premium OTT services have licensed older titles from large studio libraries going back many years, making it harder for new entrants: "It's not just about newer content, older content is a part of the mix – but a lot of the best material has already been licensed. It won't happen over the next three years, but it's important to remember that all of these [premium OTT] services depend on 25 years of library content. It's harder to bulk up a service with the older material now."
- Netflix is perceived by consumers to have a complete library of content rights: "The consumer expects Netflix to have everything – they've done an amazing job of selling that story to the collective consciousness. So in order to launch a new service you need to have lots of content that Netflix doesn't have – and then market that they don't have it."
- Although existing premium providers like Netflix, Hulu and Amazon have benefited from investing in original content, content origination is challenging and difficult to deliver at scale: "You can't just turn on a tap and start producing lots of great shows. It takes a lot of time to grow a great commissioning team and there aren't that many great ideas out there, it's hugely competitive. The big providers have taken time to build up relationships and also amortise the costs internationally."

Exhibit 5: Content spend by SVOD providers (2012-2015)¹⁰



As the market becomes more crowded and competitive, industry participants argue that new entrants will find it increasingly difficult to differentiate their services from existing premium OTT offerings and pay-TV services – levels of awareness for existing services are very high, and new entrants will have to spend significantly to achieve marketing cut-through:

- As multiple new OTT services launch in 2015 and 2016, industry participants believe that content will be the main differentiator between offerings: "At the moment, the only real differentiator is the content – that may or may not change going forwards, but it's not going to get any easier, unless you already own the content yourself and can make it exclusive to your service. There are still opportunities to offer channels as an OTT differentiator, but that feels like re-inventing the pay-TV model to me – I'm not sure that it's a very sustainable strategy for a new provider, though it might be a growth opportunity for one of the big pay-TV platforms."

¹⁰ RBC Capital Markets (2014). Note: 2014 and 2015 are estimates.

- Although pricing is a potential differentiator, Netflix is already offered at a low price point and industry participants perceive few opportunities to differentiate through price: *"I suppose you could try to undercut Netflix, but most consumers already see it as really cheap service – I'm not sure that undercutting them by a few dollars is going to drive a lot of switching or churning. Lots of new services are coming out at higher prices, not lower ones."*
- Exclusive distribution relationships with third-party MVPD platforms, retailers, device manufacturers and other partners could also be a differentiating factor, but industry participants argue that this is likely to provide only a temporary competitive advantage: *"If you do manage to secure a really great exclusive deal, it'd definitely help – but it doesn't feel very sustainable to me. How would you stop other providers gaining access to your customers? At the end of the day, it will come down to great content and a fantastic service."*
- As new services launch and the market becomes more crowded, new entrants may find it harder to cut through and differentiate their services: *"There's a real risk of consumer confusion – too many services that aren't differentiated. Lots of companies are looking to launch OTT offerings and library services, but how will we tell them all apart?"*

Industry participants acknowledge that the costs of developing a mass-market premium OTT service have come down substantially in recent years, as off-the-shelf components and scalable cloud-based infrastructure services such as AWS have become more widely available. However, **successful mass-market services still require significant investment in integration, multi-platform client development, and in high-quality user interfaces and user experiences:**

- Although many components are available off-the-shelf, technical integration is still a challenge: *"It's still not easy, providing an integrated service. You can either go with lots of different vendors and stitch it together yourself or try to find a single-stack provider, which may not offer all of the features or the flexibility that you're after. There's no easy solution."*
- The device landscape remains fragmented and standardisation is still limited, across hundreds of devices: *"Look at Netflix – they've built custom technology and APIs that help them deliver a great service to lots of devices. I know other companies that have tried and found it really hard."*
- Off-the-shelf components may help to deliver a service, but they are unlikely to support differentiation in features and functionality: *"If a lot of the content is the same, it comes down to the user experience, and that's not an easy thing to get right. UI and UX will make or break a lot of these services, and there's no easy way to do it well unless you do it yourself. It won't make your service succeed if the content isn't great, but a bad UI and terrible user experience will definitely put a lot of people off."*

Given these challenges, many industry participants believe that the prospects for new entrants gaining significant share are relatively limited: *"The only providers I think will really succeed are the big pay-TV platforms – extending their reach out of their current footprints. They've got deep pockets, relationships with content providers and a real motivation to succeed. However, it's tricky for them – can you grow a big OTT subscriber base, competing with Netflix, without cannibalising your pay-TV subscriber base?"*

6.2 Niche services

There is a widespread acknowledgement that the **barriers to launching a niche OTT service** are falling – technology costs have come down, social networks and targeted advertising have helped to reduce subscriber acquisition costs, and niche content is more readily available:

- For many providers without specialist technology requirements, the costs of developing and launching a new niche service are decreasing, as off-the-shelf technology solutions become more readily available: *“Getting content to the consumer has been getting easier for a long time – 10 years ago you had to build a CMS from scratch, now you don't. It's getting easier, faster and cheaper to launch a niche services.”*
- Industry participants note that social networks such as YouTube and Facebook and data-driven marketing have also made it easier to target specific groups of consumers and fans: *“If your target audience is really well-defined, you can reach them more easily with digital media – you can really focus your marketing on a few key platforms or work with partners to deliver very targeted messages.”*
- Interviewees believe that many niche content libraries have not yet been heavily licensed, creating opportunities for new entrants. Similarly, production costs for filming and distributing live events have come down, making it easier for rights holders to build up libraries of content that can be made available to fans via OTT offerings: *“There are a large number of fan-bases out there that would pay for an OTT service based on a particular type of content. Lots of rights holders have the ability to launch a service, they've got the audience and some already have the video – they're just waiting for someone to pull it all together and turn it into a service.”*

However, niche OTT providers still face challenges, with industry participants citing two key issues:

1. Generating high levels of cut through and encouraging audiences to subscribe
2. Challenging economics, given small target customer segments.

Although marketing costs have come down, **cutting through with niche offerings and encouraging consumers to subscribe** remains challenging:

- Industry participants believe that most consumers will only subscribe to a limited number of OTT services and many consumers: *“The bar has been set extremely high, and is only going to get higher. There will be a lot of subscription fatigue. Lots of consumers in your target segment will already have Netflix and Amazon and pay-TV as well, so you need something really special to encourage them to subscribe to another offering.”*
- In some cases, rights holders may have insufficient access to new content to justify a subscription offering: *“If you're an opera house with only six big shows in a year, it's going to be really challenging to sell subscriptions. You need to have a regular flow of new content to justify charging on an on-going basis – otherwise, you may be better off with a transactional or pay-per-view model, although that can be pretty challenging as well.”*
- As a result, many interviewees expect the most successful niche offerings to be targeted at fans of existing offerings, provided by established membership organisations or bundled with wider offerings: *“To succeed, you really need to own your own content or have an established brand.”*

Subscriber acquisition costs for new entrants are likely to be really high. I can see online video being bundled with wider membership schemes. If you don't have these advantages, subscriber acquisition costs are going to be really high unless you've got something really amazing and unique."

- Similarly, some industry participants envisage bundling different niches together to increase the size of the relevant audience: *"We think about channels as a macro theme a lot – is it worth bundling content, how do people want to consume it? Do sci-fi fans overlap with comic book fans – or would they be dissatisfied with the amount of irrelevant content in a combined channel?"*

Finally, the **economics of niche services remain challenging**, despite improving economics:

- The margins available to niche services are relatively small, and technology, content and marketing costs can be prohibitive: *"It's not easy to go it alone – to set up billing, subscriber management, authentication, multi-platform tech, marketing – it's challenging. There are low cost tech options, but it's still very complex and expensive. I look at the margins and the risks and it looks very difficult. It's genuinely hard to establish the business case."*
- In some cases, pay-aways to third-party platform providers can be prohibitive, making it harder to grow profitable businesses: *"I think the margins taken by app stores and video platforms are really damaging to smaller service providers – how can you grow a business if you're paying almost half of your revenue away to a third-party, before any other costs kick-in?"*
- However, many niche providers are managing to develop successful businesses with smaller subscriber bases: *"You don't need millions of subscribers to make a profit – services like Crunchyroll, Drama Fever and Acorn.tv are all doing well – you just need to find your niche and proposition and to execute really well."*

7 Consumer demand

- **Consumer awareness, understanding and willingness to pay for premium OTT services are exceptionally high in the USA, driven in particular by Netflix's strong growth**
- **Demand has been driven by low prices, convenience and ease-of-use, contractual flexibility, extensive libraries of bingeable content, and exclusive titles, including originals.**
- **Although demand for mass-market offerings has not yet been exhausted, future levels of demand for mass-market OTT offerings are unclear – in part because of uncertainties about the strategies of potential new entrants and existing pay-TV industry participants.**
- **Similarly, future levels and patterns of demand for niche OTT offerings are also unclear, given the wide range of potential offerings and limited market experiences to date.**
- **Demand is likely to be highly fragmented, across various pre-existing fan-bases hungry for additional content.**

7.1 Mass-market services

Industry participants believe **that there is strong demand for mass-market premium OTT services in the USA**. OTT services, driven in particular by Netflix, are well established as a distinctive alternative to traditional pay-TV offerings, offering lower prices and flexible contracts, wide availability across multiple platforms, and deep on-demand libraries of bingeable film and TV content, including originals. Moreover, US consumers are entertainment-hungry and happy to spend online:

- The US is well-established as a world-leader in premium OTT: *"There's no doubt that the USA is well ahead of other international markets. There are more subscribers here than in all of Europe. Customers here are really entertainment hungry and pay-TV has been too expensive. Netflix came along and offered something really different and distinctive – and has grown hugely. It's encouraging lots of other providers to come into the market, which will help to grow consumer awareness even further."*
- Binge-watching is becoming well-established as a widespread consumer behaviour for short- and long-form content: *"Binge-watching is crucial consumer behaviour – on our short-form channel people are watching several hours of 11-minute clips. People want to do it – and it's supported by OTT, which creates new demand. It's about control – watch as much as you want, when you want, where you want."*

Although demand for mass-market OTT services is widely believed to have been originally driven by younger, more urban demographics, perceived to be less loyal to existing brands, it has **moved strongly into the mainstream and is still growing**:

- Younger consumers are perceived to be less interested in traditional linear TV channels: *"Teenagers today have not been brought up on appointment-to-view television – they want to choose what to*

watch. OTT is really appealing to them – it's a totally different way of consuming and fits better with their preferences."

- Younger consumers are also perceived to be more likely to watch TV and video content on connected devices – in particular, smartphones and tablets: *"The younger generation don't care about watching things on TV – they'll go off with their tablet or phone to their rooms and that works fine for their purposes. I wonder how that will change when they grow up?"*
- Pay-TV industry revenues and subscriptions are commonly believed to be gradually declining, with some interviewees suggesting that new home-owners and renters are choosing broadband rather than traditional pay-TV: *"We're seeing a real change in consumer behaviour – new home owners don't buy cable, they buy broadband. Pay TV is very expensive – bundles offer good value, there's a lot of content, but a la carte offers something very different and more flexible."*
- Industry participants believe that pay-TV providers will face growing problems attracting Millennials to traditional pay-TV bundles: *"Pay-TV definitely has a problem – the whole idea of bundling lots of channels together looks really antiquated to someone brought up with the internet. I do think there's a lot of innovation happening – new products, skinny bundles, TV Everywhere – but I think it goes deeper than this, it's about brands. Netflix and YouTube have a real hold on Millennials."*
- Many interviewees believe that older consumers are also changing – non-linear viewing and cord cutting are believed to be growing strongly: *"We're in the middle of a very fundamental shift. For years, we've talked about the emergence of new platforms and disruption to the pay-TV market, but last year, it became real. Viewing is really shifting and pay-TV is having reinvent itself. I don't think it's going to die, but it is going to change. More and more consumers are going to take both pay-TV and OTT offerings."*

There is a strong consensus that **demand for mainstream, mass-market premium OTT offerings has not yet been fully met** – the market is expected to grow strongly in the coming years, as growing numbers of consumers take up subscriptions, potentially to multiple OTT services:

- There are strong expectations that consumer demand for premium OTT will continue to grow: *"It's definitely not exhausted – Netflix just had one of their biggest quarters for ages. They keep launching new titles and picking up old series and have real momentum with consumers. There are still lots of households out there who don't take Netflix or another OTT service."*
- Industry participants believe that a more diverse range of mass-market offerings will also help to grow the market: *"Look at all the new launches – they're quite different offers to Netflix. You've got channels, big brands like HBO and CBS and Discovery, and the new Apple offer. I think it'll help to bring new consumers into the market."*
- Some seminar participants referenced research suggesting that US consumers are willing to pay on average \$38 per month for a la carte TV content¹¹, implying that households without pay-TV subscriptions may take three or four OTT services: *"Cord cutting consumers will take one or two broad-based subscriptions for the household, and then two or three niche services according to their interests."*

¹¹ Digitalsmiths, Q1 2015 Video Trends Report (2015)

- However, some consumers many find that subscribing to multiple OTT services is more expensive than pay-TV: *"To get all the content that we wanted on OTT only exceeded our monthly cable bill. The pay-TV model is very resilient – for many people, going OTT only will be a more expensive option."*

However, there are **considerable uncertainties about the evolution of consumer demand during the next few years**, in part because the OTT strategies of potential new entrants and existing pay-TV providers are still developing. Some industry participants also believe that churn and retention will become more important challenges for premium OTT providers:

- Many industry participants believe that future levels of demand are very uncertain: *"It's very hard to know how consumers are going to respond to all these new launches. Some pay-TV companies will respond and launch new products and more flexible packages, which will make OTT look less different. Others are going to bundle things together, to make it harder to churn."*
- Some industry participants also believe that churn will become a substantial issue for OTT providers, as consumers learn to manage multiple subscriptions and to churn off services in-between seasons: *"We're potentially going to see a lot more subscribers churning on and off repeatedly – I only want Netflix when House of Cards is on and not the other 5 months. SVOD services can either allow this or try to encourage consumers to stay. It's the problem with being flexible."*
- Consumers of SVOD services are perceived to be very price sensitive, making it hard for providers to raise prices – seminar participants referenced the slow-down that Netflix experienced as a result of price rises: *"Netflix's success has been strongly driven by its price. When they raised the cost of their basic subscription by \$1, they saw a massive decrease in both consumer acquisition and retention."*

7.2 Niche services

While awareness of mass-market OTT services is perceived to be very high, driven primarily by the rapid growth and development of Netflix, the market for niche services is still relatively underdeveloped. Specialist services will need to **establish and communicate the distinctive benefits of their subscription offers to fans**:

- Many successful niche services are expected to be created out of existing communities and fan-bases, with a strong appetite for additional content: *"Most new SVOD launches will be closely tied to fan-bases, organisations and membership groups – it will be really difficult to communicate the offering and drive subscriptions without a consumer relationship and some form of brand awareness."*
- However, even with a large, existing, well-defined fan-base, it can be difficult to get users to subscribe: *"[A major niche content provider] have 8m followers on YouTube, a massively successful product, but they can only get 35k paying subscribers. It could be partially their target demographic – but the reality is that it is really hard to get people to pay for content."*

Niche services typically **target a much more specific demographic** than pay-TV packages and mass-market OTT services – focusing on unique content that cannot be easily accessed elsewhere:

- Most niche services offer content that is not available in significant volumes through pay-TV subscriptions: *"The purpose of niche services is to super-serve the real fans – to give them access to specialised sports, film or TV content which they can't get through their normal pay-TV subscription. If you want to watch 100s of hours of anime, or every baseball game with the Red Sox, you'll struggle to get that through a generalist service"*
- Niche services are perceived to be additive to pay-TV subscriptions and mass-market OTT offerings – industry participants believe that many households will take a pay-TV bundle, a shared, mass-market OTT service, and a selection of niche OTT services, catering to the interests of particular household members: *"The origin of OTT was people wanting to pick and choose – and I think that we will see even more of that in the future. People will have their broad-based service such as Netflix, but also a couple of individual services that are more specific to their tastes."*

Pricing is seen as an important challenge for niche OTT providers, given the costs of setting up a new service and the comparably-small target audiences. In addition, free ad-funded video is available for many specialist areas, requiring niche services to provide a clear value-for-money proposition:

- Consumer price points for OTT offerings are likely to differ across various categories of niche content – for example, a service targeting opera fans may be able to set a higher price than a kids offering. Finding the right price point will be challenging, with a wide range of reference points – including other OTT offerings and prices for event tickets, memberships and subscriptions: *"I think that the pricing for niche services will differ strongly across the market. A big sports event might be able to charge a higher price simply because the tickets would be so expensive, but there's also lots of free content out there, so you have to experiment to find the right price."*
- Many interviewees see free ad-funded content as an important barrier to take-up of niche OTT services – premium providers will need to differentiate by offering a critical mass of exclusive content, additional features or better quality video: *"There is an endless amount of content on YouTube on any topic you can imagine – the reason why someone would pay for content has to do with day-and-date access, better quality streaming, and exclusive event footage"*

Many niche offerings are expected to try to attract and retain more consumers through partnerships – by bundling premium video with existing membership subscriptions, selling the service on a larger platform such as YouTube, or by collaborating with other niche services to provide a mini-bundle. Industry participants envisage **a range of different niche models**, including:

- Existing membership organisations providing subscription video as an added benefit: *"If you're a football club you might already offer a fan-club membership – and subscription video might be a great fit to keep fans happy."*
- Retailing a subscription product through an app platform, like iTunes or Amazon: *"Last year, Amazon launched support for recurring payments and subscriptions for non-Amazon products. I can absolutely see how they could create a platform through which you subscribe to your favourite niche services."*
- Bundles of aggregating content, bringing together overlapping fan-bases (e.g. fantasy, sci-fi and comics): *"We will see some services reaggregate to create a new portfolio that creates value for the consumer – it won't be a \$150 major cable bundle, more like \$30-50 for a mini bundle. However, it might not happen before 2018."*

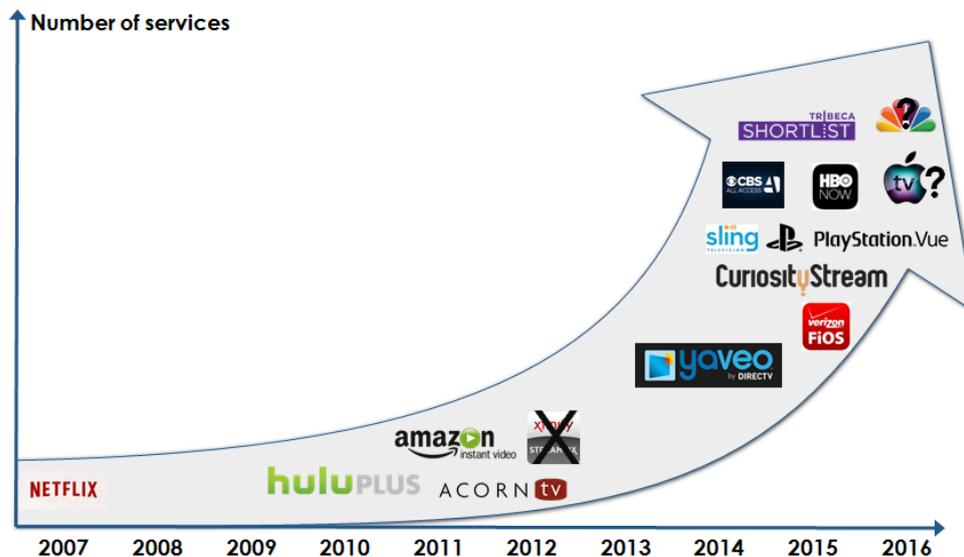
8 Competitive dynamics

- To date, the premium OTT market has been largely dominated by Netflix and Hulu, along with Amazon's bundled offering. Although a wide range of new services are expected to launch in 2015/16, industry participants believe the mass market will continue to be dominated by the incumbent service providers, with Netflix remaining the largest single provider.
- The response from large and well-funded MVPDs will have a major impact on the dynamics of the market – currently, platforms are experimenting with different strategies.
- Niche services are expected to grow strongly over the next few years, creating a fragmented market of 10-20 specialist services with over 100,000 subscribers each, and a wider range of smaller services.
- Many successful niche services are expected to be offers from existing organisations with established subscription or membership schemes, strong consumer relationships and content rights.

8.1 Mass-market services

The SVOD market has been dominated until recently by Netflix, Hulu and Amazon – but **2015/16 will see the launch of a wide range of new services**, including Dish Network's Sling TV, Sony Playstation's Vue offering, HBO Now and CBS All Access. Numerous other studios, technology companies and MVPDs are believed to be planning to launch premium OTT offerings.

Exhibit 6: Timeline of selected SVOD launches (2007-2016)



In general, industry participants believe that it is **difficult to determine which services will be successful** over the next few years, given uncertainties about the strategies of key players, the threat of disruption

to the established pay-TV market, and the prospect of rapid technological change. However, although the number of mass-market OTT services is expected to grow, there is a widespread expectation that **the mass market will remain dominated by a small number of major service providers:**

- Although some new entrants may be able to mount significant challenges to the existing mass-market OTT providers, many new services will find it difficult to differentiate their offerings. As a result, most interviewees expect the market to be dominated by a small number of providers: *"I don't think that it will be a one-pony race – the big studios and broadcaster services will be really competitive entrants in this space. But there won't be space for more than a handful of big services – I think that the market will concentrate around a small set of dominant players. There just isn't that much premium content to go around and it's hard to create lots of new content quickly."*
- Many industry participants believe that the only companies with an existing customer or user base are likely to succeed with new mass-market OTT offerings: *"Companies like Sony and Dish already have an installed base, but I believe you will struggle if you're starting from scratch. If you already have the relationship – and the credit card data – it shortens the customer journey to subscription."*
- Some interviewees believe that Apple has the potential to succeed in the premium OTT market, but note that content acquisition will be a key challenge: *"Apple is one of the few market participants that could compete with Netflix on innovation spend, but they lack content rights and will struggle to get them at scale. They have no real experience with original content creation – iTunes and the App Store are platforms for third-party content."*
- User interfaces are also cited as an important differentiating factor: *"The user experience could be another point of differentiation. In order to attract and retain subscribers, both niche and generalist market services will have to improve their user interfaces and overall experience. Consumers will quickly churn away from poor quality offerings, especially if they can't find content they want to watch."*

Many interviewees believe that the **competitive dynamics of the pay-TV market are changing, with SVOD service providers and MVPDs both trying to emulate each other's strengths.** As a result, some industry participants believe that pay-TV and premium OTT are converging:

- Many US pay-TV providers are launching OTT offerings, to defend and grow their customer bases by targeting consumers wanting low-cost, flexible packages – notable examples include Verizon's FiOS TV and Dish's Sling TV, effectively an entry level pay-TV option.
- At the same time, mass-market OTT services are increasingly looking to access the large consumer bases of the MVPDs by doing affiliate distribution deals – offering SVOD OTT services as an add-on service or as part of a dual- or triple-play bundle. Hulu has recently committed to a number of cable distribution deals, with providers such as Cablevision, Armstrong, Atlantic Broadband and Mediacom Communications¹²: *"As growth is slowing down, acquisition and retention is getting harder, and the OTT providers are looking at aligning with MVPD platforms: Amazon, Netflix and Hulu are all doing multiple affiliate deals. They have to keep growing and they know the next stage*

¹² Hulu, Press release: *Hulu Announces New Agreements to Provide Hulu to Armstrong, Atlantic Broadband, Mediacom Communications, Midcontinent Communications® and WideOpenWest (WOW!)* (5 May 2015)

in their evolution is to reach new subscribers via the big affiliate networks – DISH and Netflix is the biggest deal so far."

- To differentiate, some SVOD services are also incorporate linear features into their offering – the primary market mover has been Verizon with their Custom TV offering, but there is potential for other platforms and MVPDs to follow: "There is lots of experimentation in the market – everyone is trying to figure out how to stand out in the market. I think that there is lots of scope for linear and semi-linear offerings – curated channels, built-in personal video recorders (PVRs), in an OTT setting."
- As a result, pay-TV and premium OTT are converging: "I think it'll get harder and harder to tell the entry-level packages and the mainstream OTT offerings apart. They're going to look really similar in the future."

8.2 Niche services

All industry participants believe that **specialist OTT services will grow strongly over the next few years, creating a fragmented market** with different competitive characteristics to the more concentrated generalist services. Interviewees anticipate **15-20 niche services** attracting with over 100,000 subscribers – the majority of which will relate to sports, ex-pat/ethnic and personality type content.

Exhibit 7: Anticipated number of niche services with over 100,000 subscribers in 2018



Many niche services will be **marketing to an existing fan-base – the content offer needs to be well tailored to the target audience to succeed:**

- Industry participants believe that the majority of niche SVOD services will be driven by content owners: "If you're a film festival and you don't own your content, you need to work really hard to stand out. Both Tribeca and Sundance have launched their services and are competing for consumers. It's much easier if you're PGA Golf and you control all of your content rights."
- A small number of services will be stand-alone aggregators: "There are only a small number of genres – anime, Korean drama, independent film – that can sustain a stand-alone aggregator – those that are doing well were early movers with existing relationships and good timing."
- It will be easier to create low-quality content as video editing technology develops – but high-quality premium content that will drive subscription will still be difficult to source: "It will be really challenging to get consumers to take their credit cards out and subscribe to a recurring charge – there is so much decent ad-funded content, you need to have unique content if you want people to pay."

- Mass-market sports such as Major League Baseball and niche sports such as cycling, surfing and e-sports are believed to represent a significant OTT opportunity, given their passionate fan-bases: *"You could easily have 50 sports subscription channels. There's a lot of money available in sport – not just events, but also the interviews, the training tips, the trick videos."*
- Industry executives believe that only certain niches will be able to support a wide range of OTT providers – notably, areas such as sports, kids, ethnic/expat and personality-led offerings (e.g. politicians, comedians, celebrities): *"Lots of areas will be dominated by one or two providers, mainly because there's not enough content and not enough fans. How many anime providers will there be? Not many."*

Many successful niche OTT offerings will be provided by existing rights holders and membership organisations, enabling cross-promotion, packaging and bundling:

- There are benefits to being part of a wider fan offering: *"Big fan organisations have massive marketing budgets for their entire business – that makes it easier to cross-promote an OTT service."*
- For many spin-off services, OTT will be treated as incremental revenue stream and marketing channel: *"Louis CK's subscription TV show is break-even – he won't make a lot of money off of the service, but will build up a library of content over time that can be sold or licensed more widely."*

However, industry participants believe that the **growth prospects for specialist providers in some areas may be impacted by competition from major SVOD providers diversifying** into the most attractive areas, such as children's content, specialist film and sports:

- Mass-market OTT providers may be able to provide niche content (e.g. kids), incremental subscriptions or add-on services, driving subscriber retention at the expense of niche service providers: *"I think Netflix would be wise to add incremental subscriptions to niche services – they've pursued international rather than vertical, but the next step for them might be to go deeper into the niches."*
- Successful niches are more likely to be targeted by mass-market SVOD providers – industry participants fear that this will make content acquisition for niche services even more difficult: *"The cost of creating reasonable quality and unique content may be going down – but the big players will be picking the best content off."*

9 Conclusions – premium OTT in 2018

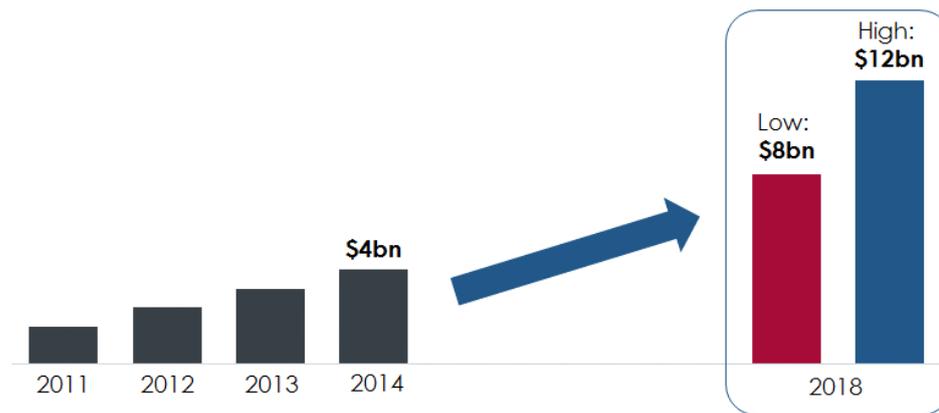
Given the success factors for different service categories, industry participants expect a distinctive market structure to emerge by 2018.

Exhibit 8: Anticipated market structure in 2018

Mass-market services	Niche providers
<p>Only a small number of mass-market services are expected to be successful in the long terms, due to the investment requirements, benefits of scale and limited appetite from consumers to subscribe to multiple services.</p> <p>Industry participants envisage that Netflix will continue to represent a majority share of the market, but other industry participants (pay-TV providers, studio/broadcasters, technology platforms) will take share, growing to about 45-55% by 2018.</p> <p>The propensity of large-scale MVPDs and broadcasters to move into the OTT space will be heavily dependent on the success of early movers such as HBO, Dish and Verizon – if these services fail to gain traction, rates of market entrance may slow significantly.</p> <p>Pay-TV and OTT will increasingly converge, with pay-TV providers offering OTT offerings as entry-level packages or to target specialist audiences, and OTT services looking for distribution on affiliate networks.</p>	<p>If content, technology and marketing costs can be kept under control, 15-20 niche OTT providers could gain traction, attracting 100,000 or more subscribers – the most attractive niches appear to be:</p> <ul style="list-style-type: none"> • Sports • Personality (e.g. comedians, politicians, other celebrities) • Specialist film and TV (e.g. Anime, religious programming) • Music • Ex-pat, ethnic and foreign language programming • Kids <p>Some services are expected to be bundled with existing membership or loyalty schemes, with video used as to add value to a wider scheme.</p>

During the next three years, **industry participants expect significant growth in the OTT market**, driven by increased consumer awareness and a range of new market entrants:

- **Strong growth forecast – but dependent on success of recent market entrants.** Industry participants feel that the market is likely to continue to grow strongly, at a CAGR of 20-30%. The level of growth will be determined by the success of new entrants, and the propensity of consumers to take multiple services.
- **Niche market forecast strong growth – but from low base.** The niche market is expected to grow strongly by 2018 compared to current market revenues. However, the niche market in 2014 is believed to be on the scale of a few hundred million dollars – even major market growth will only make a marginal impact on the overall market size.

Exhibit 9: Value of premium OTT market in 2018

- **Premium offerings at higher price points.** Industry participants believe that the market will be driven by higher-priced offerings – both from new entrants (e.g. HBO Now costing \$14.99 per month) and existing providers (e.g. Netflix \$11.99 per month family plan).
- **Broadcasters have responded to the growth of OTT with multiple strategies.** Major broadcasters are responding to the rise of OTT in different ways. Disney is notably resistant, with ESPN suing Verizon over being excluded from the core package, whereas many other broadcasters, including CBS, HBO and NBCUniversal either have launched or are launching new D2C OTT services in 2015 or 2016. The success or failure of these services will have significant impact on whether other broadcasters will follow suit.
- **Similarly, platform owners' strategies are varied.** The response of MVPDs has been diverse, with multiple different strategies: Verizon and Dish are launching their own OTT services, whereas other platforms such as Cablevision are partnering with existing services (e.g. Hulu and Netflix). Major platforms Comcast and Time Warner Cable have yet to make a move into the stand-alone SVOD market – and their eventual strategies may impact market growth by 2018.

Appendix A: Methodology

MTM's research programme was structured around a modified form of the Delphi technique – a widely-used approach for developing forecasts and predictions about the future by stimulating a considered consensus of opinion across a group of experienced industry participants. The technique is intended to facilitate access to the positive attributes of interacting groups, synthesising knowledge from a variety of sources and industry perspectives to develop a shared perspective on future market developments.

To complete this study, MTM analysed and synthesised a broad range of publicly-available information and industry data relating to the development of premium OTT services in the US market. All sources have been attributed. We then conducted in-depth interviews with 10 senior executives with knowledge of the US market, exploring their perspectives on market drivers and barriers, competitive dynamics and future developments.

Drawing on the findings from these research steps, MTM developed an analytical framework to structure the Delphi discussions. The framework was used at two specially-convened seminars, held in Los Angeles and New York in early June 2015, attended by a diverse group of experienced executives from across the technology, media and entertainment industries, including studios and broadcast networks, rights holders, leading multichannel video programming distributors (MVPDs), mass-market and niche OTT providers and online video businesses, producers, and investors.

MTM's project team (Jon Watts and Karin Bergvall, with support from Stephen Adshead and Ed Corn) has been supported throughout by key executives from Ooyala (Steve Biondolillo) and Vindicia (Bryta Schulz and Kevin Cancilla).

Appendix B: The research framework in detail

We used a simple four-stage framework to structure our programme of research and analysis. The framework was used to systematically explore industry perspectives on the development of the market and competitive environment for premium OTT services during the next three years.

Market enablers

Market enablers comprise the underlying conditions required to support premium OTT services, including broadband infrastructure, penetration of connected devices, payments, and regulation.

Exhibit 10: Market enablers

	Primary factors	Secondary factors	Future uncertainties include:
Broadband	<p>Fixed broadband speeds and coverage</p> <p>Backhaul capacity</p> <p>Data caps and traffic management policies</p> <p>Superfast roll-out</p> <p>Common standards for video streaming and delivery</p>	<p>Quality, coverage and penetration of mobile broadband</p> <p>Availability of public Wi-Fi</p>	<p>Ability of infrastructure to support reliable delivery of high-quality live or simulcast OTT video offerings with large numbers of concurrent users, as the OTT market grows?</p>
Devices	<p>Video standards supporting wide cross-platform client support across multiple devices</p> <p>Desktop, laptop and tablet penetration</p> <p>Smart TVs and connected TV devices, (e.g. dongles, consoles)</p>	<p>Smartphone penetration</p>	<p>Improved access and ease-of-use for OTT services on TV platforms and Smart TVs?</p>
Payment	<p>Low-cost access to subscriber management subscription billing and recurring payment solutions</p> <p>High levels of credit/debit card take-up</p>	<p>Flexible third-party billing systems (e.g. to support OTT integration with MVPDs)</p>	<p>Prospects in-app subscription services on Google Play store and Android ecosystem?</p>
Regulation	<p>Favourable licensing</p>	<p>Advertising regulations</p>	<p>Future direction of legislation</p>

regimes for OTT providers (e.g. levies, language and subtitling requirements, local content investment requirements)

Data and privacy regulations and regulation?

Competition regulation

Net neutrality regulation

Strength of anti-piracy measures

Success factors and high-level business requirements

Success factors for mass-market and niche OTT services vary significantly, notably in relation to investment requirements, given the costs associated with licensing and originating significant volumes of premium film and TV content, attracting and retaining subscribers, and delivering services to the mass-market.

Exhibit 11: Success factors for premium OTT

	Mass-market services	Niche providers
Investment	Very high initial investment required to license content, build technology platform and brand	Lower levels of investment required to build/acquire player and infrastructure – costs can be reduced by using third-party providers
Content	Premium film and TV, including exclusive content – owned, originated or licenced. Content owners risk cannibalising business with pay-TV affiliates by going OTT	Requires access to cheap content at reasonable volume and regularly refreshed – if not then a transactional or ad-funded model may be more suitable
Technology	Usually custom built – but off-the-shelf products increasingly common. Technology unlikely to be major driver of subscriber acquisition – but biggest services use quality as a differentiator	May need to minimise cost by only supporting a small number of platforms. Some content niches may lend themselves to specific functionality – e.g. offline viewing for children’s
Brand and marketing	Significant marketing required to build brand and audience – easier for existing linear businesses. Subscription model relies on retaining customer after high initial spend on acquisition	Needs to have existing fan base or well-defined target audience, reducing the cost of marketing. In many cases the most successful OTT services will be bundled as part of a wider subscription, membership or fan club offer

Consumer demand

The project team used a simple framework to explore industry perspectives on future levels and patterns of consumer demand for premium OTT services, focusing primarily on issues around awareness, willingness to subscribe, and levels of differentiation.

Exhibit 12: Consumer demand factors and indicators

	Key questions:	Indicators include (e.g.):
Awareness and understanding	<p>Are consumers aware of premium OTT services and do they understand their distinctive benefits?</p> <p>Do different consumer segments understand OTT offerings?</p>	<ul style="list-style-type: none"> Marketing and advertising expenditure by OTT service providers Levels of (favourable) press coverage Consumer search interest (Google Trends) Social media mentions
Differentiation from pay-TV	<p>Are OTT services suitably differentiated from pay-TV services to drive take-up?</p>	<ul style="list-style-type: none"> Quality and distinctiveness of OTT content offerings: exclusivity, early windows, investment in origination Relative prices for pay-TV and OTT services Average pay-TV cost per capita Availability of multi-platform TVE services (anywhere, anytime)
Availability of other substitutes	<p>Are consumers well-served by alternative sources of content or by similar products and services?</p> <p>Do these products act as substitutes for premium OTT services?</p>	<ul style="list-style-type: none"> Penetration of pay-TV, PVRs, VOD offerings, at comparable prices Satisfaction with existing pay-TV services Availability and usage of free/ad-funded content (e.g. YouTube) Time spent on video games and alternative digital content offerings
Willingness and ability to subscribe	<p>Are premium OTT services affordable and do they offer value-for-money?</p> <p>Are consumers happy to pay for entertainment content online – or are free or pirated offerings preferred?</p> <p>Are consumers willing to set up recurring payments and to provide credit card details?</p>	<ul style="list-style-type: none"> Overall entertainment spend per capita – pay-TV, DVDs, cinema box office Relative price points and clarity of value propositions Levels of piracy Impact of advertising on consumer choice/consideration sets over time

Competitive dynamics

At a high-level, industry participants envisage three broad categories of competition impacting the future growth and development of premium OTT in the US market during the next three years:

1. Competition between well-established mass-market premium OTT providers, such as Netflix, Hulu Plus and Amazon's Prime Instant Video, and new entrants, such as pay-TV providers, studios, internet businesses and technology providers.
2. Competition and cooperation between mass-market premium OTT providers and established MVPDs. Industry participants envisage significant price competition, as established pay-TV providers extend their services online and reduce prices to respond to perceived competitive threats from lower-priced premium OTT offerings. At the same time, pay-TV platforms and OTT providers are increasingly developing partnerships and commercial agreements, as premium OTT providers look to gain access to MVPD networks and subscriber bases.
3. Growing competition between mass-market aggregators and niche or specialist OTT providers, as mass market providers look to deepen and extend their content offerings, to target and attract new subscriber groups, entering into competition with niche providers in more attractive segments of the market, such as children's content, specialist film and, potentially, sports. However, there may also be opportunities for partnerships, with mass-market providers offering distribution deals to niche providers.