

Sky's NOW TV Combo OTT bundle promises flexibility to consumers, but will not stimulate cord-cutting

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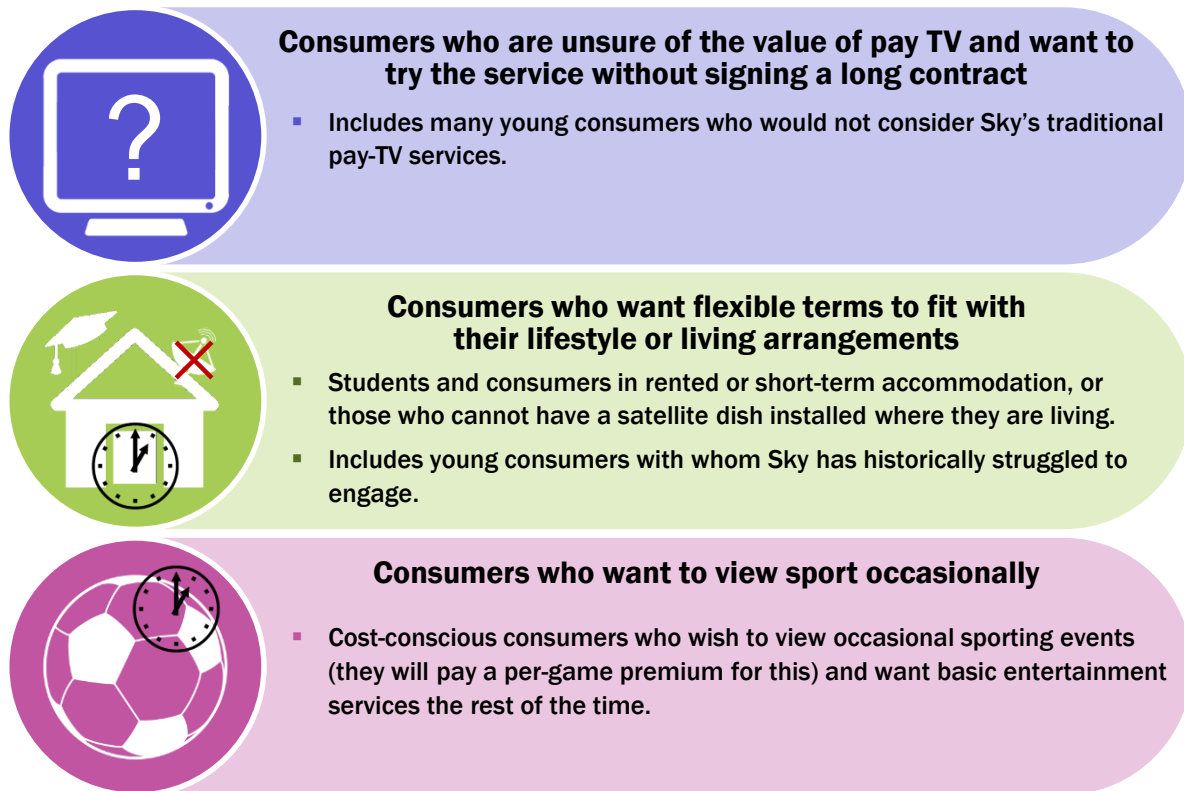
Sky's triple-play NOW TV Combo bundle is gaining media and consumer attention because consumers expect significant price savings and greater flexibility. The UK's satellite broadcaster launched the set of tariffs based on bundles of its OTT video service NOW TV and its fixed broadband and voice services in July 2016. This comment analyses Sky's pricing of these bundles, the potential impact on the UK market, and the replicability of the bundles elsewhere.

The NOW TV Combo is part of Sky's ongoing mission to win new customer types

NOW TV is the vehicle through which Sky offers a subset of its broadcast and library content as a monthly OTT service. Subscribers do not need to sign a lengthy contract to use the service, which attracts consumers who want a more-flexible way to watch content such as Sky Atlantic or Sky Sports. NOW TV can be considered to have been successful since its launch in 2012 – 5% of all UK respondents to Analysys Mason's *Connected Consumer Survey 2016* used the NOW TV service.¹ The NOW TV Combo bundles this service with NOW TV's own-branded fixed broadband and voice double-play services to create triple-play bundles that have no minimum contract term – as opposed to Sky Broadband's typical 12-month contract. In order to make the service 'feel' more like a traditional pay-TV service, Sky has launched the NOW TV Smart Box which integrates the paid-for NOW TV service with 60 free-to-air DTT channels. This makes the bundle comparable to those offered by competitors BT and TalkTalk.

¹ For more information, see Analysys Mason's *Connected Consumer Survey 2016: pay TV and video in Europe and the USA*. Available at www.analysismason.com/CC-PayTV-video-EUR-USA-Apr2016.

Figure 1: Potential customer groups for the NOW TV Combo bundles



Source: Analysys Mason

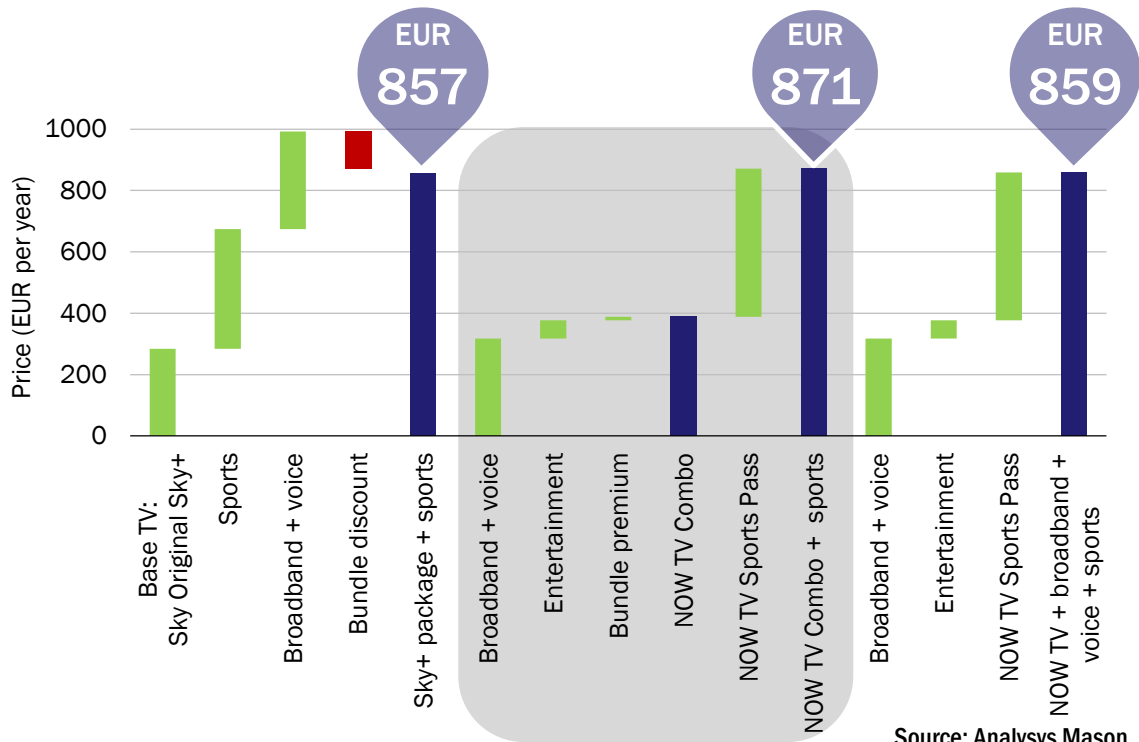
The service will also appeal to cost-conscious consumers who are likely to be led by advertising, rather than objective assessments of the true cost of a service. For example, The Daily Express newspaper released an article titled 'Sky may have just given YOU the best reason to CANCEL your contract' which failed to mention the limited price savings associated with buying sports through the service.²

The NOW TV bundles are priced to maximise appeal and minimise margin erosion

Sky, and NOW TV's, tariffs carefully protect a core Sky asset – its sports content. The broadcaster's Sky Sports package is priced at between EUR21 and EUR33 per month and has 4–5 million subscribers. Consumers could choose to replicate the content included in a standard Sky+ package with a Sky Sports bolt-on by using the NOW TV Combo package, or by subscribing directly to the component parts (see Figure 2). In each case, they would spend between EUR857 and EUR871 within their first year of service. Taking the NOW TV Combo is actually the most expensive way to view the Sports content.

² www.express.co.uk/life-style/science-technology/686050/sky-tv-subscription-now-tv-combo-package-cancel.

Figure 2: Price comparison of three different ways to purchase Sky's Entertainment and Sports packages, annual cost



However, NOW TV is much more affordable than signing up to Sky for access to either its Cinema or Entertainment content: it would be EUR17.7 per month cheaper to subscribe to the NOW TV Combo with the Entertainment package than it would be to subscribe to Sky's basic triple-play service, over the first year.

The NOW TV Combo packages are attractive and will give Sky some limited advantage

The key selling point is that the service has a 1-month minimum term and can be cancelled any time after that. The strength of Sky's content, and brand power, will further support the bundle. On the other hand, compared to BT TV and TalkTalk TV, the service does not integrate with third-party OTT services such as Netflix and Amazon Prime, and the lack of a PVR, which was a significant selling point for many TalkTalk TV customers, will limit the appeal of the service to some types of customer.

Most high-spending UK TV consumers care about sports content, and current Sky customers are unlikely to migrate to the new service bundles and 'cannibalise' their traditional service subscription. Nonetheless, the NOW TV Combo bundle is a credible alternative to BT and TalkTalk's entry-level triple-play bundles and is likely to gain Sky some broadband and voice customers from this customer base.

Operators in other countries may wish to replicate the NOW TV Combo bundle if particular criteria are met

Some operators already offer bundles that appear to offer a similar proposition to the NOW TV Combo bundle: a fixed double play, with a 'lite' TV offering. Such services appeal to consumers who are unwilling to pay a

significant increment for high-end content, are not prepared to pay for sports content on an ongoing basis, or who particularly desire flexibility. The key criteria by which an operator may be able to judge replicability of the offer are as follows.

- **The strategy benefits established pay-TV broadcasters.** Sky is able to leverage its large number of TV and movie channels to offer differentiated packages of content. A smaller operator that does not produce its own channels would struggle to differentiate itself.
- **The pay-TV market needs to be sufficiently lucrative such that a 'lite' service has a clear price point.** Traditional pay TV in the UK was priced at around EUR53 per month in 2015; this ensures that a service priced at EUR5 to EUR30 per month is significantly cheaper than 'full' pay-TV packages. An operator aiming to replicate such an approach in a market with affordable EUR10 per month packages from several competitors might find it hard to draw attention to a EUR5 per month lite service.
- **Affordable wholesale terms, or owning fixed assets, optimise margins.** Sky has a significant unbundled DSL network in the UK; wholesale prices are heavily regulated, and therefore affordable. Because of this, Sky can offer NOW TV as an IPTV service with minimal per-gigabyte-of-video-data cost. Pay-TV providers wishing to offer such a service when they do not have strong fixed infrastructure assets may find themselves restricted by network pricing and performance issues, and are probably better placed to consider partnerships with established operators to offer joint-branded bundles.