Subscription, advertising and transactional models for TV and video: opportunities for revenue growth

Martin Scott and Giulio Sinibaldi

RESEARCH

About this report

Revenue in the TV and video market will grow by USD95 billion worldwide between 2019 and 2024. However, players that focus on the small proportion of this growth that will come from subscriptions to linear pay-TV services will be missing out on a number of opportunities. The relative importance of advertising and transactional and subscription payments is changing.

This report:

- assesses the relative value of engaging with consumers through advertising, transactions and subscriptions
- identifies opportunities for improving and diversifying the ways in which pay-TV providers approach subscription, transactional and 'free' TV and video services
- uses case studies and examples to reinforce 'best practice' approaches to the issue.

The report also presents a series of recommendations that operators and pay-TV providers can take in order to capture a larger percentage of the future revenue growth within the TV and video market.

KEY QUESTIONS ANSWERED IN THIS REPORT

- How should companies with pay-TV and video operations recalibrate their services to maximise future revenue growth potential?
- How can the subscription model for TV and SVoD services be adapted and improved to maximise its appeal?
- How can operators capture more transactional revenue in a fragmented, OTT-heavy video market?
- How do players meet consumer expectations for ever-increasing amounts of 'free' content, overcome affordability issues in emerging markets and replicate the success of players that derive the majority of their revenue from advertising funding?

WHO SHOULD READ THIS REPORT

- Product managers and strategy teams working for operators and pay-TV providers that treat video services either as a core competency or as a value-added service (VAS) to support their core services.
- Marketing executives and product managers for operators that are making decisions about TV and video service design.
- Strategy teams for operators and pay-TV providers that are assessing the impact of the changing competitive landscape on their business; in particular, the changing competition and collaboration between players.

Executive summary

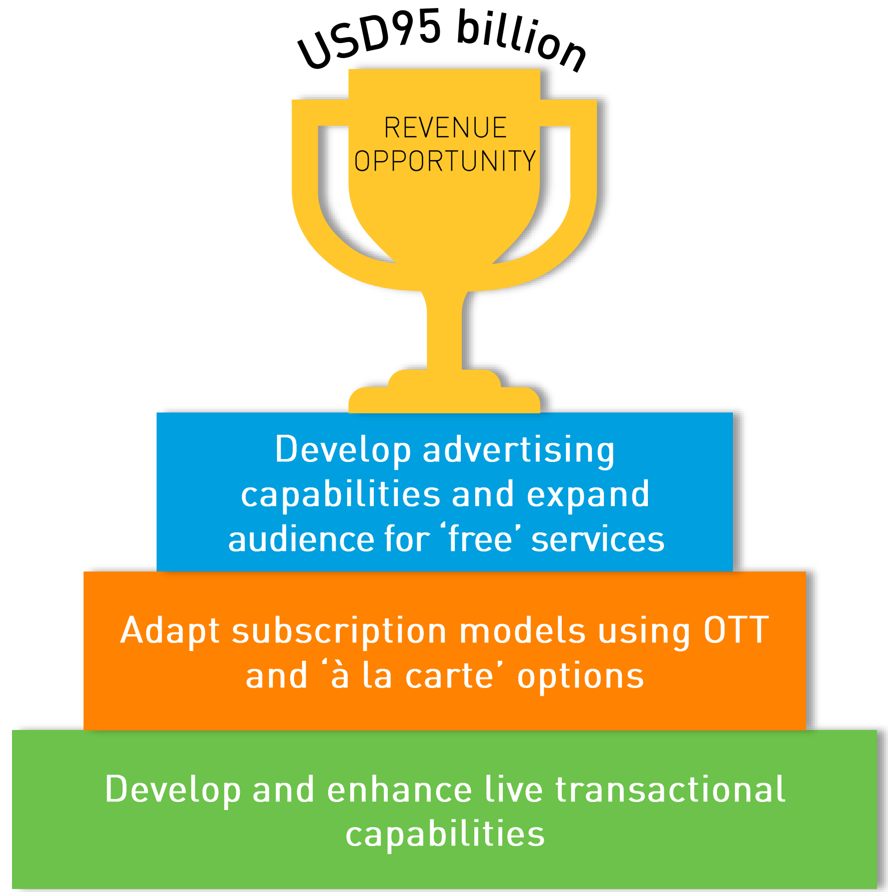
Revenue in the TV and video market will grow by USD95 billion over the next 5 years, but traditional TV providers are not optimally positioned to capture this growth. To rectify this, pay-TV providers must embrace ad-funded innovation, broaden their subscription models and increase their transactional revenue.

Traditional subscription pay TV is failing to evolve with changing consumer viewing habits, which are themselves being moulded by an increased diversity in engagement models. Indeed, ad funding, OTT subscriptions and transactional sales will be the main sources of revenue growth in the TV and video market in the next 5 years. Providers of traditional services must therefore change their engagement models to capture future revenue growth.

KEY RECOMMENDATIONS

1. Operators and late-entrant pay-TV providers should explore ways in which to access both the broader audiences that ‘free’ services attract, and the potentially sizeable revenue from addressable advertising.
2. Pay-TV providers should adapt their subscription models by changing how content is delivered and how prices are set.
3. Subscription players should increase their addressable market by considering using transactional business models for pay-per-view sports content.

Figure 1: Key actions for operators and pay-TV providers that wish to capture the TV and video revenue growth opportunity



Source: Analysys Mason

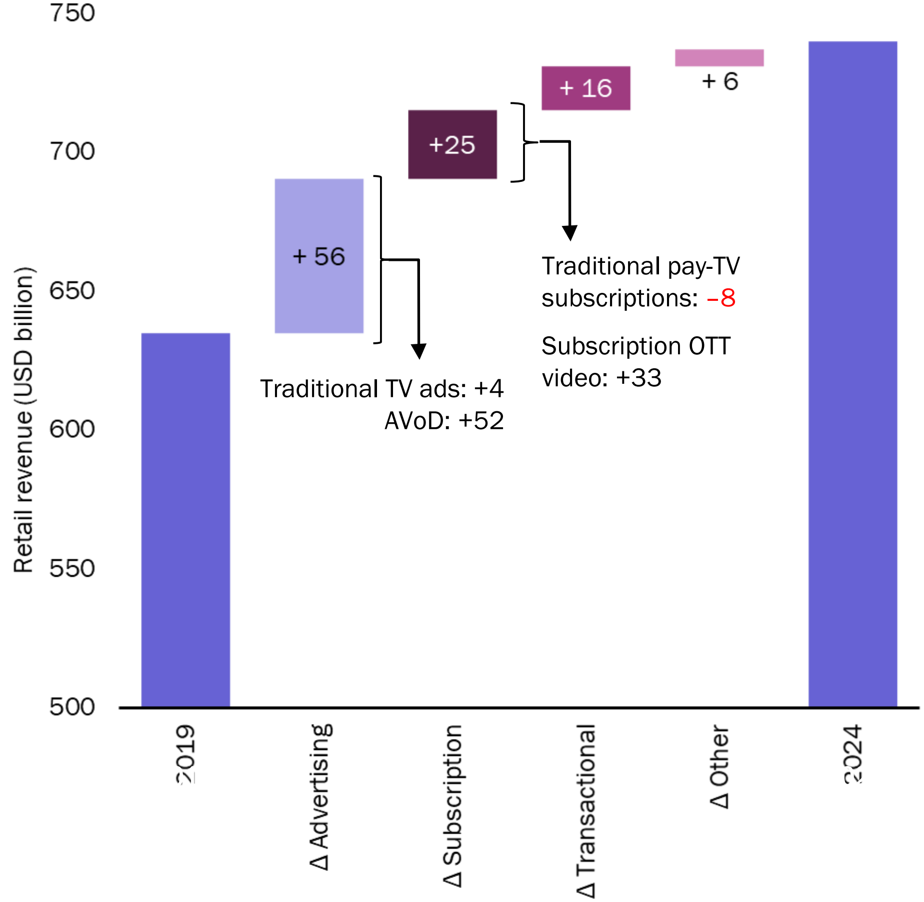
Challenge: traditional TV providers are not optimally positioned to capture the USD95 billion of revenue growth that is expected in the next 5 years

The overall value of the TV and video market will increase between 2019 and 2024; the specific areas of revenue growth indicate where pay-TV providers must make changes.

Pay-TV providers and operators with pay-TV services are heavily invested in subscription broadcast models that use traditional access technologies. We expect that the retail revenue for such services will decline by USD8 billion worldwide between 2019 and 2024. However, the total TV and video market will grow by USD95 billion to reach USD740 billion by 2024. Pay-TV providers and operators with pay-TV services that do not redirect investment and innovation towards the major growth areas of the sector risk therefore missing out on significant revenue growth. Players that wish to address this opportunity face several challenges.

- There is a growing consumer expectation of free or nearly free content, which rival players support by ad-funding or cross-subsidising with other revenue sources.
- Video consumption is becoming increasingly fragmented across multiple services, and competition from players such as Amazon use this to their favour.
- Apple and Google are strong in the transactional sales market, and it may be difficult for other players to compete in this space.

Figure 2: Change in TV and video revenue by type, worldwide, 2019–2024



Source: Analysys Mason

Solution: pay-TV providers should embrace ad-funded innovation, broaden their subscription models and increase their transactional revenue

Figure 3: Ways in which pay-TV providers and operators can use free, subscription and transactional models

Advertising/free

Size of opportunity: +USD56 billion between 2019 and 2024.

Operator positioning: Larger players are reasonably positioned.

- Operators should embrace or facilitate targeted (addressable) advertising. Smaller players may approach this through partnerships (for example, Virgin Media has partnered with Sky for AdSmart).
- Operators can experiment with free service tiers and trials in order to expand their potential audience.

Subscription

Size of opportunity: +USD25 billion between 2019 and 2024.

Operator positioning: Larger players are well-positioned to extend their core business; smaller players may play an aggregator role (with partners).

- Operators can further integrate OTT into their own traditional pay-TV portfolio.
- They may expand their audience by launching their own OTT services.
- They may negotiate deeper relationships with OTT players which extend their ability to price and market their services in different ways.

Transactional

Size of opportunity: +USD16 billion between 2019 and 2024.

Operator positioning: Better positioned for linear events than for TVoD.

- TVoD businesses may be built upon in certain cases.
- Operators are well-placed to explore opportunities around the transactional sale of linear events.
- They may experiment with windowed access and microtransactions in order to create new opportunities.

Source: Analysys Mason

Recommendations

1

Operators and late-entrant pay-TV providers should explore ways in which to access both the broader audiences that 'free' services may attract, and the potentially sizeable revenue from addressable advertising.

Analysys Mason forecasts that the value of video-based advertising will grow by USD56 billion worldwide between 2019 and 2024. Pay-TV providers in affluent markets may increase their advertising revenue through improved targeting and partnerships. Providers in emerging markets will have more success from using AVoD to generate value.[1] Freemium models may be used to increase reach in either scenario, but must be tied to upsell strategies.

2

Pay-TV providers should adapt their subscription models by changing how content is delivered (OTT) and how prices are set ('super aggregation' is becoming appealing and consumers expect more-flexible pricing).

Pay-TV providers can better position their subscription business to capture future revenue growth. Analysys Mason forecasts that the retail revenue for subscription OTT video services will grow by USD33 billion between 2019 and 2024. To best capture this growth, providers will need to embrace OTT delivery. They may also choose to offer variants of à la carte pricing to grow revenue and exploit OTT integration 'super aggregator' opportunities.

3

Subscription players should increase their addressable market by considering using transactional business models for pay-per-view sports content.

Transactional models can be applied to live content as well as on-demand video. Transactional pricing can be used as a paid-for route to engage new customers that are then introduced to subscription services; it can also be used as a flexible way to engage 'cord nevers'. TVoD solutions can be used to circumvent constraints in certain markets where rights windows prevent content from being made available OTT until 36 months after cinema release.

[1] AVoD typically stands for 'advertising-supported video on demand' and refers primarily to services such as YouTube that are available for free to consumers and are funded by associated advertising.

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Martin Scott (Principal Analyst) co-ordinates Analysys Mason's research initiatives related to media and TV. He manages the *Video Strategies* research programme. Martin has held numerous positions within Analysys Mason during the last 14 years, including heading the company's Consumer Services, Data and Regional Markets practices. He also launched Analysys Mason's *Connected Consumer Survey* and *Consumer Smartphone Usage* series of research. His primary areas of specialisation include telco TV strategy, OTT video and media, consumer smartphone usage, the bundling and pricing of multi-play services, including quadruple-play bundling, customer satisfaction and consumer-facing marketing strategy. He also specialises in statistics, surveys and the analysis of primary research.

Giulio Sinibaldi (Analyst) is a key contributor to Analysys Mason's *Consumer Services* and *Digital Economy* research practices. He is interested in mobile strategies, over-the-top (OTT) platforms, Internet regulation and consumer behaviour, and his skillset includes quantitative forecast modelling and big data analytics. Giulio holds a BSc and an MSc in Economics from Bocconi University.

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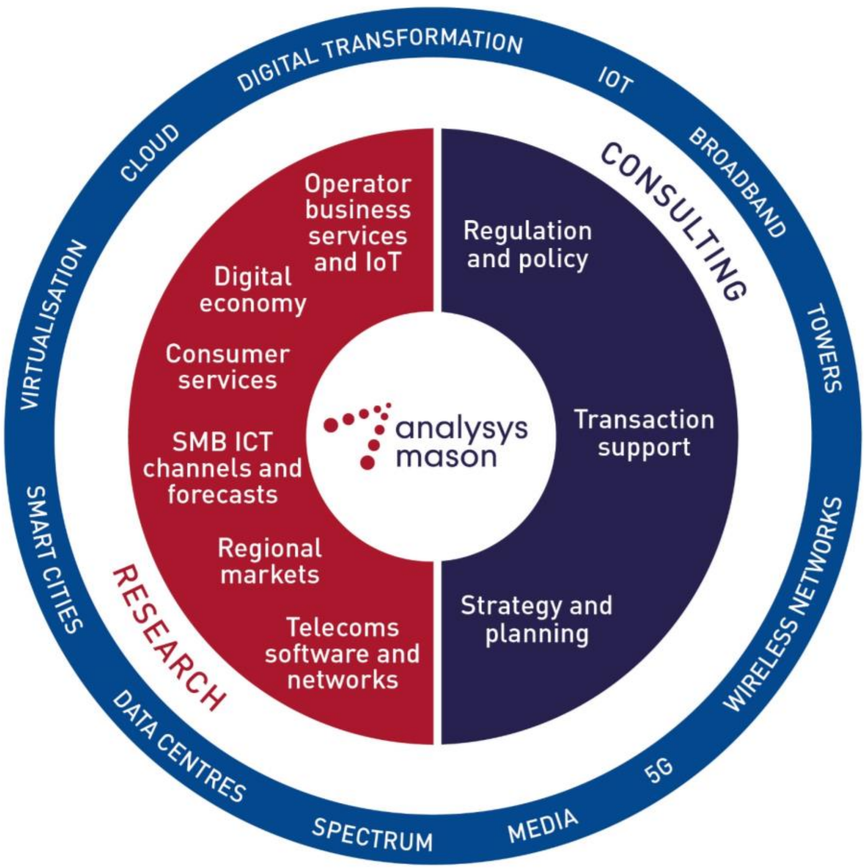

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PUBLISHED BY ANALYSYS MASON LIMITED IN **AUGUST 2019**

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