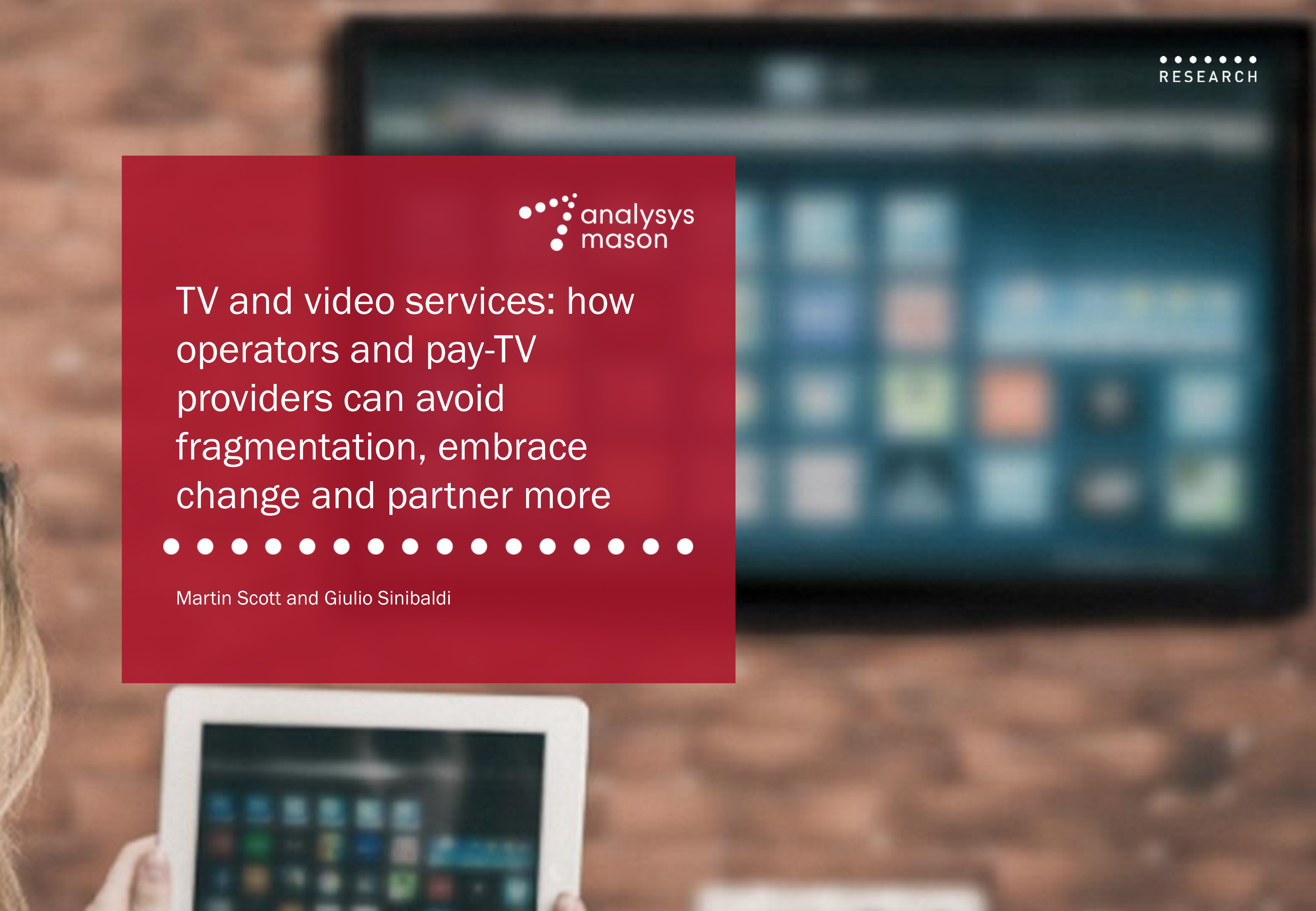

RESEARCH

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TV and video services: how operators and pay-TV providers can avoid fragmentation, embrace change and partner more

Martin Scott and Giulio Sinibaldi

About this report

The TV and video landscape is changing. The increasing variety of business models that compete with traditional pay TV succeed because they give consumers greater choice and convenience, as well as exclusive content that draws consumers to their services. Telecoms operators are well-placed to adapt their approach to TV to better cater to these same needs, but operators will need to change their approach to the retail and distribution of TV and video content, the way they differentiate their services, and the partnerships that they form in order to achieve these ends.

This report analyses key changes in the TV and video landscape, articulating the shift in consumer engagement and competing business models. It then sets out a vision for how pay-TV providers must change their approach in order to adapt to these changes. The report provides recommendations for operators and pay-TV providers.

The report draws upon a series of published and forthcoming reports from Analysys Mason's *Video Strategies* research programme, and interviews and conversations with stakeholders.

KEY QUESTIONS ANSWERED IN THIS REPORT

- How is the TV and video landscape evolving and how do operators and pay-TV providers evolve with it?
- How should operators and pay-TV providers adapt their TV and video propositions to the increase in the number of ways consumers watch and buy content?
- How should operators and pay-TV providers tackle the incursion of different players into models that compete with the traditional pay-TV business?
- What are the different modes of collaboration that operators can embrace?

WHO SHOULD READ THIS REPORT

- Strategy teams and product managers working for operators and pay-TV providers that treat video services either as a core competency or as a value-added service 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.
- Vendors that provide solutions to operators and pay-TV providers for the provision of OTT and multi-screen services.

Contents

Executive summary

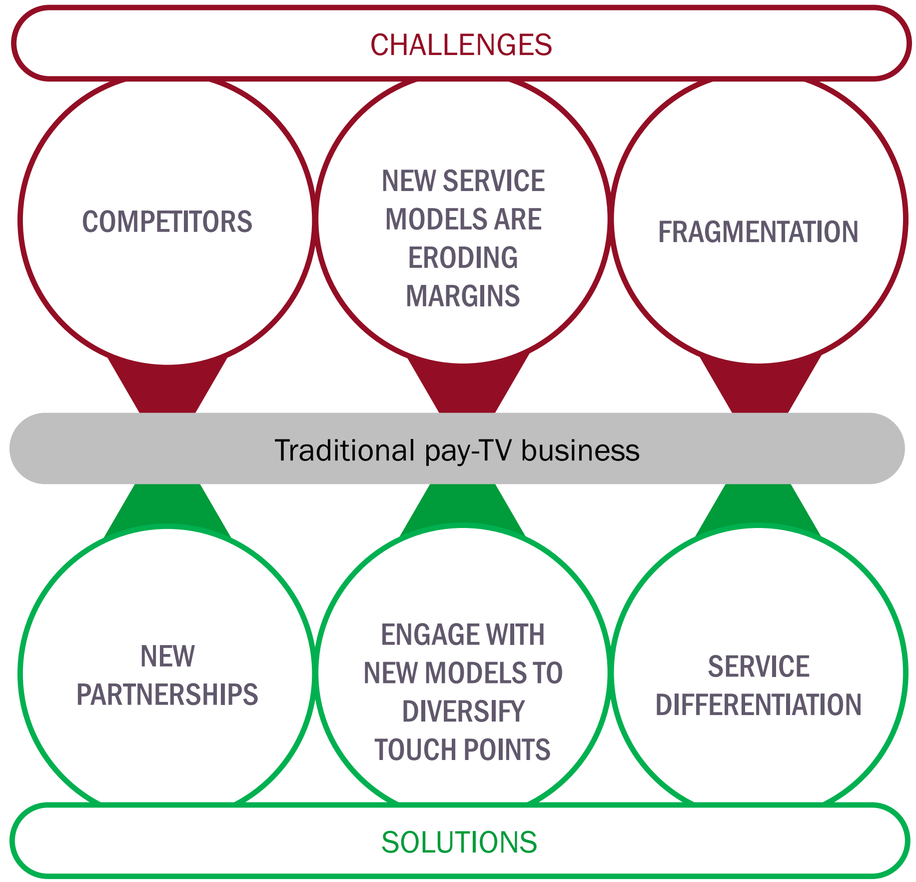
Increasing complexity in the TV and video value chain is putting pressure on the traditional pay-TV business model in three key areas. The successful pay-TV providers of the future will have more-diverse engagement models, greater content differentiation, and more partners.

The TV and video landscape is changing, particularly in terms of how consumers watch content, the service models that satisfy those needs, and the way in which players collaborate. The new business models that compete with traditional pay TV are successful because they give greater choice and convenience. Pay-TV providers should treat these new models as opportunities to share risk, develop innovative propositions, and keep their service at the centre of the customer experience.

KEY RECOMMENDATIONS

1. Providers must formulate a partnership strategy that supports their core vision as either a content leader or a 'super aggregator'.
2. Providers must update their retail approach to maximise growth – most revenue growth in the next 5 years will relate to subscription OTT services and the transactional purchase of live content.
3. Operators must tap into the increased importance of exclusive (and possibly original) content to differentiate.

Figure 1: Competitive challenges to traditional pay-TV businesses and potential solutions



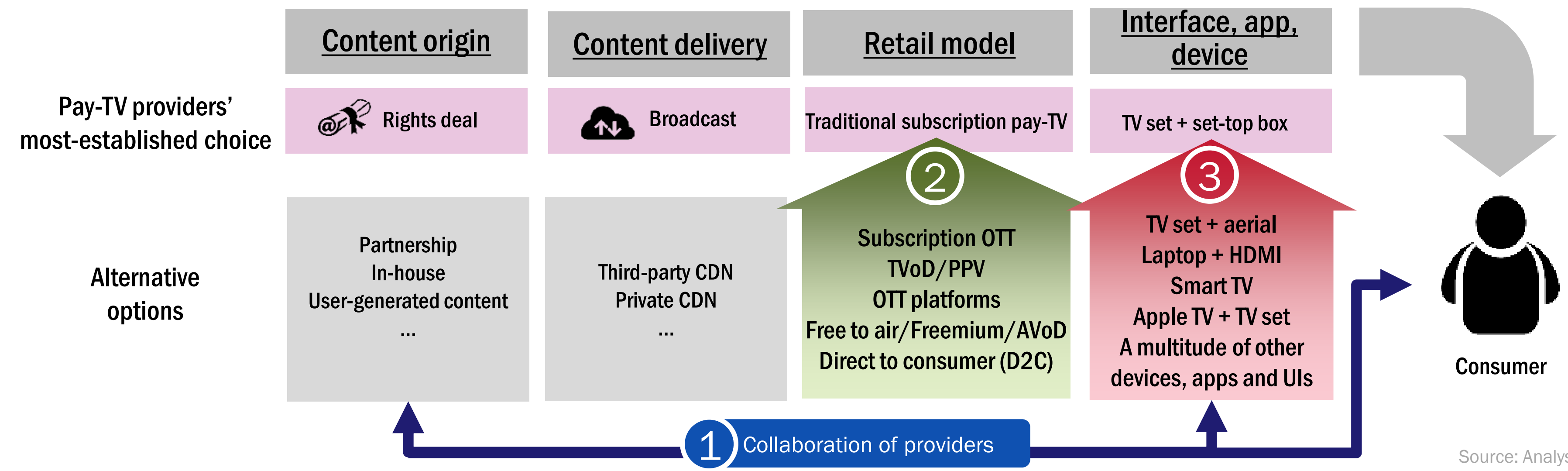
Source: Analysys Mason

Challenge: increasing complexity in the TV and video landscape is putting pressure on the traditional pay-TV business model in three key areas

Operators and pay-TV providers continue to pursue the 'traditional' business model for pay TV. This model faces three key pressures.

1. **New models of collaboration** are forming, for example content rights holders are going direct to the consumer, but are also partnering with pay-TV providers; the integration of services with rival retail models into operators' set-top boxes; and the reinvention of OTT–operator partnerships as rights deals. **Pay-TV providers that adopt these models may accelerate ahead of competitors that do not.**
2. **Formation of new retail models** such as transactional and free access to premium content, content being made available as part of a wider bundle of OTT services, or being sold direct to consumers. These new models **reduce the appeal of the traditional retail model**.
3. Increase in the number of ways that consumers view content. **Fragmentation of consumer use** of devices and interfaces has led to greater price competition. As content becomes available through multiple devices and interfaces, so user experience and price become potentially less important and **the ability of the service to differentiate on the basis of exclusive content becomes more important**.

Figure 2: Choices made by providers of TV and video content in different parts of the value chain, highlighting key areas of change



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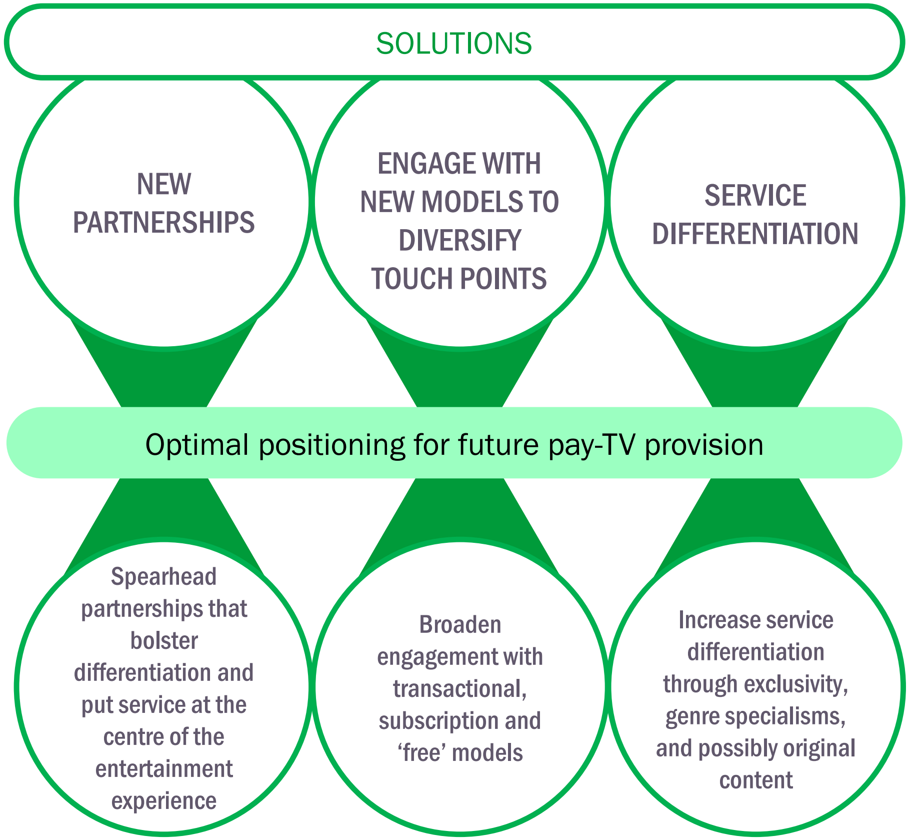
Solution: successful pay-TV providers will form more partnerships, have more-diverse engagement models and will find ways to differentiate their content

Pay-TV providers can increase consumer choice and convenience by embracing flexibility in engagement model, content proposition and judicious engagement in partnerships.

The increasing number of business models that compete with traditional pay TV successfully exert pressure on that model primarily because they give consumers greater choice and convenience. Pay-TV providers must adapt their approach to improve their ability to cater to these needs.

- Providers can collaborate with competitors and OTT providers in new ways – the increased complexity in the value chain allows for competitors to also become partners in different contexts. Providers must formulate a partnership strategy that supports their core vision as either a content leader or a 'super aggregator', as explored in this report.
- Providers can respond to the increase in the number of ways consumers consume, buy and pay for content by broadening the ways that they engage with transactional, subscription and free business models. Investing in search and discovery may become an important part of operator strategy.
- Providers can respond to the incursion of different players into models that compete with traditional pay-TV businesses by creating further differentiation between their service and competitors' – gaining exclusive (and possibly original) content is an important factor in this strategy. Excelling in a particular content category (such as sport, foreign drama, blockbuster films) can provide this 'hook'.

Figure 3: Solutions for successful pay-TV provision



Source: Analysys Mason

Recommendations

1

Providers must formulate a partnership strategy that supports their core vision as either a content leader or a 'super aggregator'.

Providers can collaborate with competitors and OTT providers in new ways, and competitors can become valuable suppliers of content. Partnerships with OTT players will become important to almost all providers. Providers must then decide whether those partnerships define their service; many will choose either to offer exclusive content, or to aggregate OTT players' content as a 'super aggregator'.

2

Providers must update their retail approach to maximise growth – most revenue growth in the next 5 years will relate to subscription OTT services and the transactional purchase of live content.

Providers can respond to the increase in the number of ways that consumers watch and buy content by broadening their transactional, subscription and free business models. Going OTT – may help to capture some of the USD43 billion retail revenue growth in subscription OTT video services worldwide between 2017 and 2022; growth in transactional sales of content may be pursued primarily through the delivery of live sports OTT.

3

Operators must tap into the increased importance of exclusive (and possibly original) content to differentiate.

Sports have been a high priority for operators that were trying to establish credibility as pay-TV providers, but other content can also help them to differentiate themselves. As content becomes available through multiple devices and interfaces, user experience and price become potentially less important and the ability to offer exclusive content becomes more important. Excelling in a particular content category (such as sport, foreign drama or blockbuster films) can provide a 'hook' that appeals to a particular demographic group.

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About the authors

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 10 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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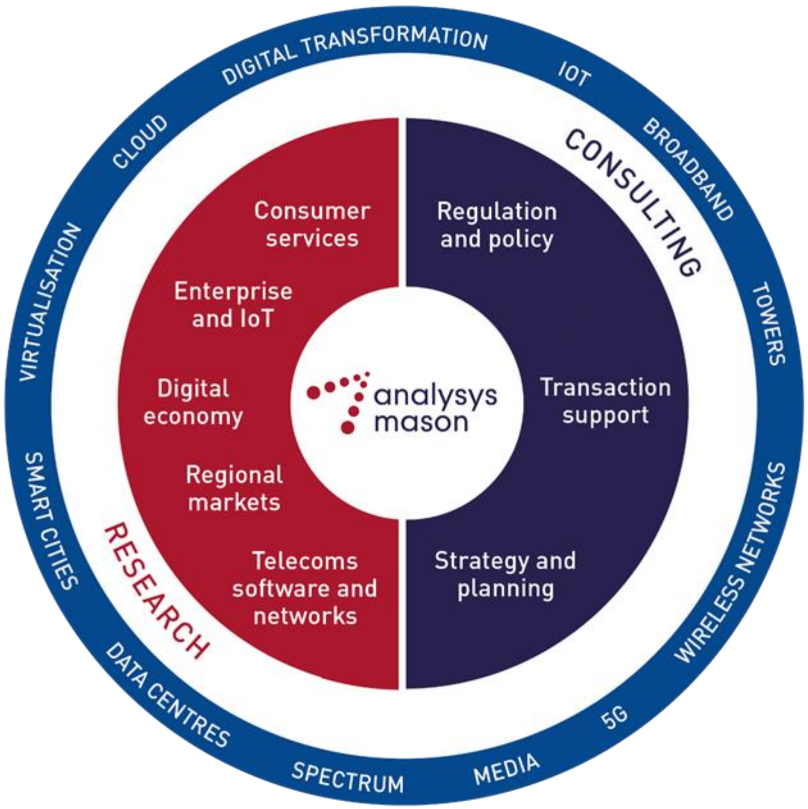

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PUBLISHED BY ANALYSYS MASON LIMITED IN **OCTOBER 2018**

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