

D2C IS NOT ENOUGH: HOW PAY TV CAN HELP DRIVE SVOD/AVOD SUCCESS

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INTRODUCTION

With increasing competition in the online TV market, SVOD and AVOD providers need to start thinking outside of the direct-to-consumer box to keep growing.

The noise level in the market for online television services has increased dramatically this year. The successful debut of Disney+ and launches of Peacock and HBO Max will only intensify the competition for consumer attention in the coming months.

Little wonder that SVOD and AVOD providers are concerned they simply won't be heard by their potential audience. They are right to be concerned. Among adult U.S. TV consumers with broadband, 70% of 18+ U.S. TV and broadband consumers use at least one of the top three providers, and 42% use two or more.¹ As Disney and others ramp up their marketing campaigns, it will become ever harder for smaller services to break through the chatter.

It is time for SVOD and AVOD providers to start thinking outside of the direct-to-consumer box to keep growing. As this paper reveals, Online TV providers of all sizes are discovering that traditional pay TV services can be great partners in helping to expand distribution and to reach new potential customers.

This paper presents five key challenges faced by direct-to-consumer (D2C) providers in the increasingly competitive online TV market. It also discusses how pay TV operators can provide alternative approaches to these problems.

The five topics covered are:

- Accelerating growth
- Marketing in a video context
- Reducing barriers to signup
- The emerging role of search
- Enhanced monetization opportunities



nScreenMedia spoke with executives from D2C providers to understand how they are coping with these challenges and how pay TV operators are helping them to energize their growth. We devote one section of the paper to each topic. Each section leads with a quote from a D2C industry insider, which distills the crux of the challenge. We then analyze the challenge and look at how pay TV operators are helping D2C providers master it.

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ACCELERATING GROWTH

“The revenue growth based off those legacy systems has been fantastic. Where they trump the OEMs is that they are putting these OTT channels into an ecosystem where there is 5 to 7 hours a day of consumption, and browsing is a normal habit. On top of that, they have just enormous installed bases. ”



Erick Opeka, President, Cinedigm

Challenge

The COVID 19 pandemic has shed light on the importance of streaming services, as people turn in droves to stay informed and entertained. At the same time, it is getting harder for an SVOD service to be found by potential customers. In theory, being available on the Internet allows a provider to reach almost everybody. In practice, larger services have bigger voices that drown out the message of smaller providers. Case in point: Disney+. Who can have missed the ad barrage for the service since Disney launched it in November 2019? As consumers think about which service they want to subscribe to next, it is big brands like Disney+ that will be top-of-mind.

Also, consumers are tiring of complexity. Just 22% say multiple services make it easy to choose what’s best for them to watch. Hub Research asked if U.S. consumers would prefer to access all of their TV content from a single source. Of the nearly 50% that expressed a clear preference, 69% preferred a single source, while 31% preferred accessing sources individually.² The data illustrates that many consumers are looking for integrated solutions to help them manage all of their services.

For online TV providers, the message is clear. The days of launching an owned-and-operated site and going it alone with a direct-to-consumer approach are over. Providers need a broader distribution strategy.

How Pay TV Can Help

Pay TV operators are exceptionally well placed to assist an SVOD or AVOD service because they can deliver two essential things other operators cannot:

1. Broad market reach
2. A customer base willing to pay for video

By definition, a pay TV customer has demonstrated a willingness to pay for video. Operators from other communications markets, like mobile and broadband, can help online TV providers, but their customers may not be in a video mindset when using the service.

Despite the overall decline in pay TV in some markets, the service remains hugely popular. Three-quarters of U.S. homes still have pay TV, and UK pay TV penetration remains well above 60%.^{3,4} Moreover, people continue to spend a great deal of time watching TV. In the U.S., the average viewer watches 3 hours and 56 minutes per day. Even the difficult to reach 18-to-34-year-olds watch for an hour and a half each day.

Cinedigm owns several online TV services, including Dove Channel and CONtv. These channels are integrated with pay TV systems like Comcast X1, Dish Network, and Sling TV. The company’s president, Erick Opeka, has first-hand experience of how helpful pay TV operators can be in accelerating growth. Mr. Opeka had this to say about his company’s pay TV partnerships:

“The revenue growth based off those legacy systems has been fantastic. Where they trump the OEMs is that they are putting these OTT channels into an ecosystem where there is 5 to 7 hours a day of consumption, and browsing is a normal habit. On top of that, they have just enormous installed bases.”

Simply put, online TV providers will encounter more potential customers and convert them into paying customers through pay TV.

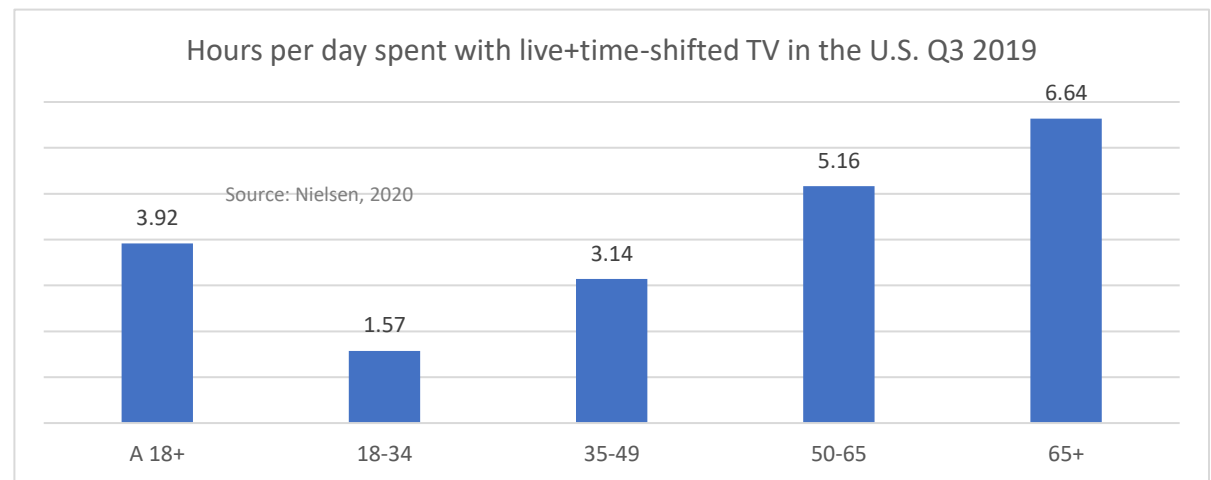


Figure 1. People from every age group watch a significant amount of TV every day

MARKETING IN A VIDEO CONTEXT

“It starts by being available on the set-top box <of> the device they are using. Putting Netflix there and making it easy to use the service and sign up there. But increasingly now with bundles, we’ve removed yet another point of friction. So, that’s just a part of their offering. We can do a call to action, <put> it right in front of them. But also, we are finding with co-marketing programs; we are getting more sophisticated, we can do a more effective job at reaching out to more of those members to be around the world.”



Greg Peters, Chief Product Officer, Netflix



Figure 2. Online TV services can appear in the channel guide making discovery by browsing easy

The Challenge

There are many options for an online TV provider to reach potential customers with a marketing message. For example, a provider can use Google Adwords to capture a viewer searching on a show or movie or genre covered by the service. However, with conversion rates between 2% and 3%, using Google search ads isn’t a very effective strategy.⁵ Also, a browser search is relatively difficult to translate into a new service signup because the user likely doesn’t watch on a PC. They are more likely to use a connected TV for premium content.

A better approach is to market to a viewer when they are ready, willing, and able to watch. In other words, when they are watching TV. Pay TV operators stand apart because they can offer an almost ideal marketing environment for online TV services.

How Pay TV Can Help

According to Erick Opeka, President of Cinedigm, getting an Online TV service app and content into a pay TV interface is a great marketing opportunity:

“You’re putting these OTT channels into an ecosystem with 5 or 6 hours a day of consumption, and browsing is a normal behavior and habit.”

With high SVOD adoption in many TV markets, many pay TV customers are already frequenting their operator’s app store to access popular online TV brands such as Netflix and Amazon Prime Video. Being available in the app store is a perfect opportunity for a user to discover a new service while browsing.

Services can also be included as “pseudo-channels” in the traditional TV guide, so users can discover them when browsing channels. Browsing guides remain a popular way of finding something new to watch. For example, 77% of British and 67% of Swedish viewers say they browse the on-screen guide to find something to watch.⁶

Pay TV operators can also offer a range of unique marketing opportunities because of their special relationship with subscribers. These include:

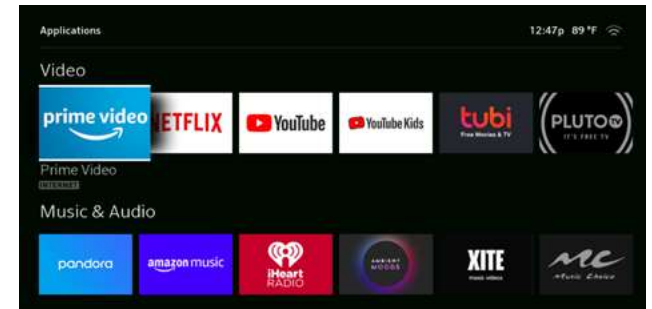


Figure 3. Operator app stores allow users to browse for new apps in a TV context

- Bill stuffers—paper marketing banners inserted inside the monthly bill that is sent to customers
- In-app-store promotions—discounted multi-month commitments, inclusion in channel, or content bundles
- Freebies—sales, free binge weekends, free trial periods, etc.

Savvy online TV providers are increasingly taking advantage of pay TV operator marketing opportunities to boost signups. Netflix was an early mover in striking operator distribution deals and continues to pursue and leverage them aggressively. The company has agreements in many regions of the world and continues to add more. Greg Peters, Chief Product Officer at Netflix, believes they bring the company many advantages:

“But increasingly now with bundles, we’ve removed yet another point of friction. So, that’s just a part of their offering. We can do a call to action, <put> it right in front of them. But also, we are finding with co-marketing programs; we are getting more sophisticated, we can do a more effective job at reaching out to more of those members to be around the world.”⁷

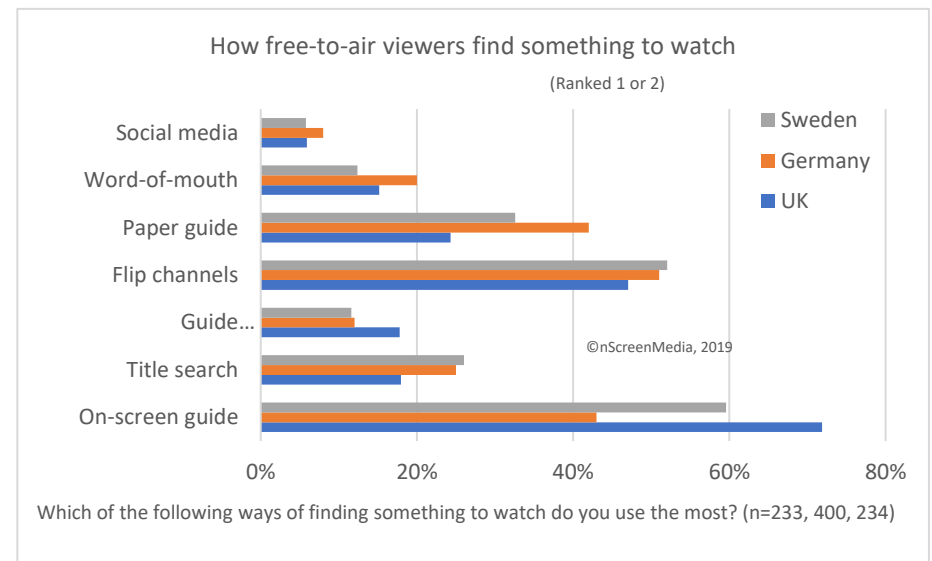
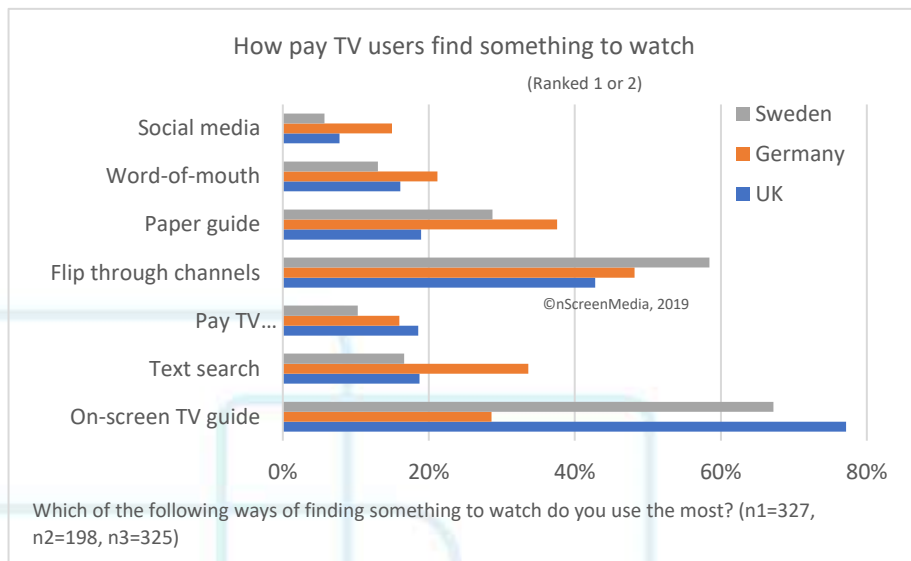


Figure 4. Browsing the guide remains a primary way people find something new to watch.

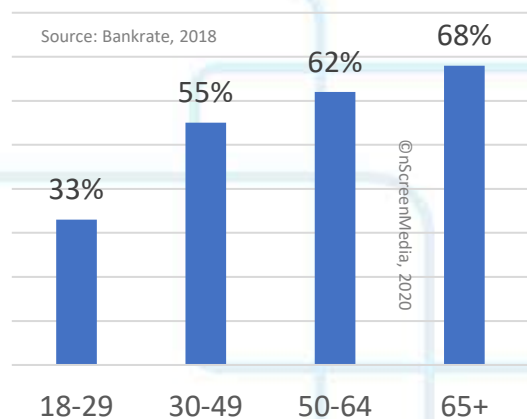
REDUCING BARRIERS TO SIGNUP

“It’s what we refer to here as friction minimization. The operators have multiple touchpoints, and it is considerably easier for them to sign people up. It’s because of the presence they have.”



Clint Stinchcomb, President, and CEO, CuriosityStream

Credit Card Adoption in the U.S. by Age Group



Challenge

For D2C providers, it is becoming harder to get people across the signup finish line. When confronted with a screen demanding personal details and credit card data, people are increasingly reluctant to provide the information.

The Advertising Research Foundation found that the number of people willing to share something as basic as a home address fell from 41% in 2018 to 31% in 2019. Willingness to share an email address also fell from 61% to 54%.⁸ Consumers have good reason to be wary. The number of sensitive consumer records exposed in 2018 increased 128% over 2017, to reach 447 million.⁹

Another barrier is the payment method requested by the D2C provider. 1-in-5 Americans don’t have a credit card. What’s more, only one-third of 18 to 29-year-olds say they have one.

Pay TV operators can help directly with both the privacy and payment method problems.

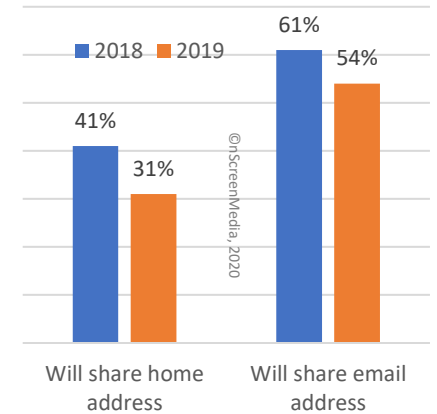
How Pay TV Can Help

Pay TV operators already have a billing relationship with their subscribers. When a consumer decides they want to gain access to a D2C service via the operator’s set-top box, there is no need to enter any billing or personal data. A simple one-click confirmation is all that is necessary. Clint Stinchcomb, President, and CEO of CuriosityStream refers to techniques such as one-click signup as a distinct advantage of pay TV operators:

“It’s what we refer to here as friction minimization. The operators have multiple touchpoints, and it is considerably easier for them to sign people up. It’s because of the presence they have.”

Mr. Stinchcomb has gone further and made the barrier completely invisible to operator customers. CuriosityStream has partnered with Altice in the U.S. to make the service available on the operator’s set-top box. However, broadband customers get access as part of their subscription. When a customer is at home on their broadband network and accesses CuriosityStream from any of their connected devices, they can immediately access the content, no login required. A simple IP address check confirms the user is an Altice customer and can use the service as part of their broadband subscription.

Willingness to share personal information is declining



Source: Advertising Research Council, 2019

THE EMERGING ROLE OF SEARCH

“The more we ensure search enables deep linking directly into content, that’s going to be a better user experience and better for us. In some ways, it is early days for voice search in terms of early adoption and the voice systems being as sophisticated and robust as they’ll eventually be, but we are pretty bullish on it.”



Alex Kisch, EVP, Business Development & Affairs, General Counsel, Vevo

Challenge

Most pay TV operators offer search functionality, and the feature has become very popular. 53.6% of U.S. consumers use the text search provided by their pay TV operator.¹⁰ Search, of course, is nothing new. A D2C provider likely has already integrated with cross-service search facilities offered by the popular streaming media players such as Roku and Amazon Fire TV.

The problem for D2C providers is that each operator and device maker has a different technical implementation for search. The provider must perform a unique integration with each. The process can be daunting, causing some D2C providers not to support the platform search function.

However, there are benefits to supporting operator search today, which will only increase over time.

Approach

Today, search solves a particular problem for viewers: when they know what they want to watch, search frequently gets them there faster. Pay TV text search is doing a pretty good job since two-thirds of search users say the results are accurate. For a D2C provider, pay TV search delivers two critical benefits.

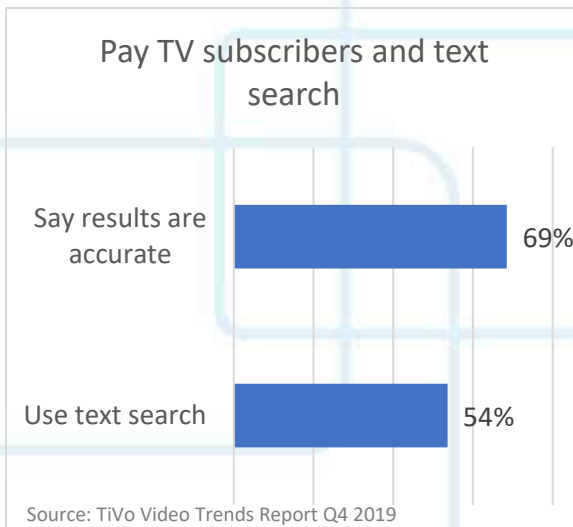
The first benefit is the most obvious. Search makes it easier for existing customers to remain engaged with a D2C service—deeper engagement results in increased customer lifetime value (CLV).

The second benefit is search’s role as a marketing tool for a D2C service. Every piece of content becomes an entry point to the SVOD service; every search is an opportunity to connect with a potential customer. Alex Kisch, EVP, Business Development & Affairs, General Counsel, Vevo, sees both benefits as important:

“The more we ensure search enables deep linking directly into content, that’s going to be a better user experience and better for us. In some ways, it is early days for voice search in terms of early adoption and the voice systems being as sophisticated and robust as they’ll eventually be, but we are pretty bullish on it.”

As Mr. Kisch says, search is evolving, which should make it a lot more helpful to D2C providers and to viewers. The move toward voice search is already well underway. Today, a third of pay TV subscribers use voice search through their pay TV STB and remote.

Also, voice technology is moving toward natural language processing, which will allow the system to understand and respond to less specific requests. Soon, viewers will be able to say, “Show me British comedies with the tall guy from Monty Python” and be directed to *Fawlty Towers* on Netflix and *Hold the Sunset* on BritBox, both starring John Cleese. Pay TV operators with such a voice search facility will be able to help a D2C provider find new customers no matter how crowded the SVOD space becomes.



ENHANCED MONETIZATION OPPORTUNITIES

“ So, if you’re a <Virgin Media> XL subscriber, you have access to hayu already. And we



really value those types of partnerships because they allow us to get the content, the product itself, out to the widest possible group of people. ”

Hendrick McDermott, SVP Branded on Demand & MD hayu, NBCUniversal International

Challenge

Before 2019, most D2C providers exclusively leveraged the subscription model to monetize their service. In 2019, free ad-supported services such as Pluto TV, XUMO, and Tubi emerged as strong alternatives to the subscription approach. Pluto TV says it has 22.5 million monthly active users (MAUs), while XUMO claims 25 million.* Services like Peacock from ABC, HBO MAX, and CBS All Access are planning to combine subscriptions with advertising. While diversifying revenue generation models is a smart move, it comes with challenges for medium to small online TV providers.

Smaller providers may not be able to offer the scale required to an advertiser to command high CPMs. Also, selling advertising, especially at the local level, can be difficult for a small provider to pull off. As has already been discussed, selling standalone subscriptions to consumers also comes with its own set of challenges.

How Pay TV Can Help

Pay TV operators can bring creative approaches that boost ad sales and subscription revenue without increasing the burden on smaller online TV providers. Here are some of the ways pay TV can help:

- Aggregate ad opportunities across multiple providers to boost reach and ad values for everyone.
- Help sell slots to national and local advertisers using their established ad sales team.
- Add SVOD services to traditional linear TV bundles.

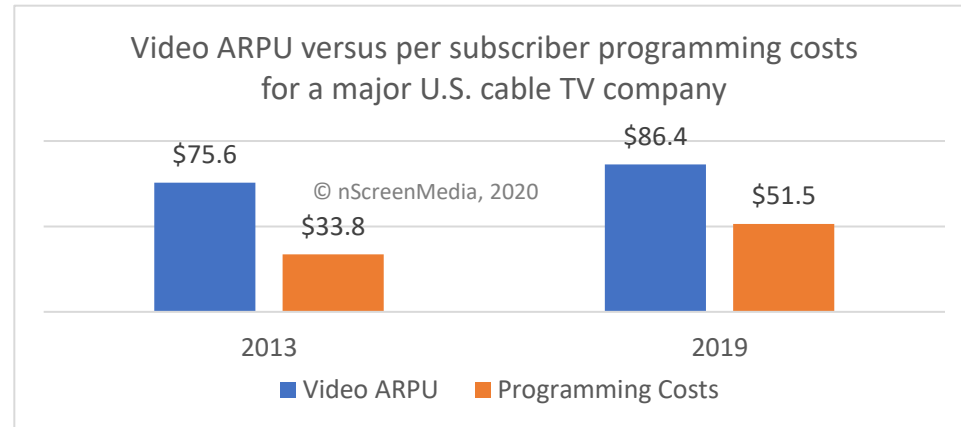
The bundled approach was singled out by Hendrick McDermott, Managing Director of hayu, as being useful for his SVOD service. He worked with the UK’s Virgin Media to get hayu added to the XL pack:

“So, if you’re an XL subscriber, you have access to hayu already. And we really value those types of partnerships because they allow us to get the content, the product itself, out to the widest possible group of people.”



* There is no standard for MAU measurement. Reported numbers come from the companies and are unaudited.

Online TV providers are also inverting the way traditional pay TV operators partner with content providers. In the traditional pay TV model, the operator pays a license fee to the programmer to distribute its TV channel. Programmer license fees are the largest cost faced by pay TV operators and continue to grow, eating away at the operator's profit margin. For example, a major U.S. cable TV company pays 60 cents of every dollar it receives in video subscription revenue directly to TV programmers. In 2013, it paid 45 cents of every dollar.¹¹



Mr. Stinchcomb believes TV programmers are taking advantage of pay TV providers:

“For some of the legacy cable networks, it’s nothing but a zero-sum game. It’s ‘how much can I extract from these guys before they cry uncle.’”

With Online TV providers, the model is dramatically different for the operator. Typically, there is no license fee payment. What’s more, the operator profits from the Online TV service’s success directly through signup bounty payments, a share of subscription revenue, or a share of the advertising on the service.

In other words, pay TV operators have a huge incentive to help Online TV partners to be successful. According to Erick Opeka:

“The providers are more incented to have these <Online TV> channels have a higher share of consumption because it has a superior revenue model. Instead of them paying for the channel, they make money if someone watches them.”

CONCLUSION

“PlayWorks believes in a very deep way that the pay TV operator is an incredibly important part of



the new TV world. They are the old TV world, but their positioning and their customer base and the usage of their products is still of incredible value. We believe that they are an essential part of our success.”

Jonathan Boltax, CEO, Play.Works

SVOD and AVOD providers have plenty of options to consider as they look to expand their distribution. Amazon Channels, The Roku Channel, and Apple TV are reselling partner SVOD services. Moreover, The Roku Channel is also syndicating partner AVOD content. However, none can match the reach and engagement of pay TV. Three-quarters of U.S. homes have pay TV, and each person watches for almost four hours per day.¹²

With such deep penetration and engagement, pay TV operators are still very relevant to an Internet TV provider’s business, according to Jonathan Boltax, CEO of Play.Works:

“Play.Works believes in a very deep way that the pay TV operator is an incredibly important part of the new TV world. They are the old TV world, but their positioning and their customer base and the usage of their products is still of incredible value. We believe that they are an essential part of our success.”

What’s more, the great engagement that pay TV enjoys rubs off on the Internet TV services that join the experience. The Play.Works app appears in the Metrological app store on the Liberty Global set-top boxes. Mr. Boltax says that similar integrations deliver high content engagement. For example, he sees that viewers watch 200+ minutes a month, with viewing sessions of 20-to-30 minutes.

Considering much of the content delivered by Play.Works channels and on-demand apps consists of short-form YouTube videos, that means viewers are typically watching two or three segments in each viewing session. Moreover, Play.Works can easily replicate the experience across multiple operators. Metrological’s app store is available from multiple operators and the Play.Works app will run anywhere the store does.

Pay TV operators are experts at delivering aggregated video experiences. Moreover, they can be especially helpful to Internet TV providers, according to Vevo’s Kisch:

“That would be the difference between having a Vevo app on Apple TV or Fire TV versus an app on Sky Q. We’re relying a little more on the distributor to find the audience.”

Pay TV operators can also provide marketing, billing, enhanced monetization, and slash the barriers to a customer signing up for your service. They are also educating their customers on the value of new technologies such as voice search that can turn every piece of content in an Online TV service’s library into an entry point to the service.

So, as SVOD and AVOD providers look for ways to cut through the marketing chatter and reach more viewers, pay TV operators should be at the top of their list of possible new distribution partners.

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