

Back to the Future for OTT/SVOD?

Is "Bundling" Ready for a Comeback?



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Cable operators have been rethinking the Broadband-Only vs. Broadband+Video strategies, each having its own respective issues in the near term. But new strategies are emerging that have the potential to successfully address these concerns.

While the Broadband-Only strategy continues to enjoy healthy profit margins (for now), increasing regulatory and competitive pressures are pushing down hard on pricing and margins as evidenced by a recent BroadbandNow study that found that Internet bills have already fallen 14% to 42% over the past five years.

On the video front, traditional PayTV services continue to hemorrhage customers while new OTT/SVOD services have drawn millions of customers, with more than 50% of broadband households subscribing to four or more streaming services. However, the current direct-to-consumer streaming model is no longer impressing investors and may not be sustainable. With dozens of new players every year, the market is becoming increasingly fragmented, which has driven up average churn to 20% per month and average customer acquisition costs to record levels on the order of hundreds of dollars in marketing and original content development per new customer acquired. All of this means that customers are not sticking around long enough to enable breakeven of the customer acquisition costs. To solve this, some players are cutting development of original content, but while this reduces customer acquisition costs, it also reduces new customer acquisitions and drives up churn. Netflix and others are also increasing prices, but this too drives down customer acquisitions and drives up churn, as evidenced by Netflix's recent first-time-ever subscriber losses.

As we consider more promising solutions to this direct-to-consumer conundrum, an important metric to consider is that cable operators who offer some form of video with their broadband service have seen 2X-5X the broadband subscriber growth (and lower churn) than those operators who offer no video. These operators report that unlike broadband, their video service enables them to maintain constant, branded engagement with customers, including ongoing brand-building and promotion of their broadband service using the multitude of subscriber video screens.

Thus, if it is demonstrable that operators benefit financially through a video offering, one intriguing solution for the future may be the "bundling" of broadband with multiple OTT/SVOD services, much like legacy cable channels were/are bundled into a single service subscription. Who better to play the role of Bundler than the cable operator?...equipped with the right IPTV solution and partner to drive success.

Operators have recognized the need for a financially solid IPTV partner who brings the right mix of elements to ultimately drive broadband growth, and secondarily, video growth and profitability. Ideally, the IPTV solution enables self-promotion of the operator's own broadband service on every video screen, and is strategically designed to maintain the operator's one-stop-content-shop role throughout the multi-year business model transition, initially curating seamless easy access to, and global search of, the OTT content, leveraging separate consumer subscriptions for viewing and then, over time, enabling the operator to pull specific OTT services into a price bundle as deals are struck with OTT players. ■



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Figure 1: Example of OTT/SVOD Curation Within Operator PayTV App

