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Meeting Customer Expectations with Video-on-Demand

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Introduction

Video on Demand (VoD) is a well-established and valuable feature for video service providers (VSPs) of all stripes and sizes. And while it has been in service for well over a decade, it is now truly coming into its own as a key competitive component of any video service, traditional subscription or over-the-top (OTT). Indeed, consumption of VoD by end consumers is rising dramatically and any VSP who wants to be seen as a viable option by those consumers needs a VoD strategy.

According to recent research from market research firm Leichtman Research Group (LRG), 65% of all cable and telco video subscribers have used VoD from their current provider and 58% of them have used VoD in the past month. VoD usage of course extends deeply into the OTT arena as well. This same research showed that 64% of households subscribe to an OTT SVOD service like Netflix, and just over half (51%) access it on a monthly basis¹. Customers use and want VoD services quite regularly.

The Flavor of VoD

VoD is not a singular service. In fact, it comes in many different flavors. The cited VoD research from LRG highlights some of the different flavors. Subscription VoD (SVoD) requires a monthly subscription fee for access to its on-demand content and Netflix, Hulu, and other OTT services are the most recognizable versions of SVoD. But it also extends to premium channels like HBO and Starz.

Transactional VoD (TVoD) occurs when a customer pays a one-time fee to rent or buy on-demand content, like a movie or TV show. In many ways TVoD is the evolution of the familiar pay-per-view (PPV) model. TVoD is mostly focused on movie and event content, but increasingly includes individual TV shows and even a show's whole season series.

Free VoD (FVoD) is probably the fastest growing flavor of VoD and is the most promising. With FVoD, video service providers offer a library of VoD content that is available at no additional cost to customers, as a value-added benefit for being a subscriber to their pay-TV service. This content is mostly made up of TV show and movie content associated with the linear channels and networks that make up a VSPs channel line-up. But can also include local content and originally produced content.

FVoD is increasingly seen as a necessary competitive tool to combat the appeal of SVoD OTT services, which features much of the same content. By adding an FVoD component, VSPs give subscribers a reason to stay on their pay-TV platform, rather than going to a competitive OTT platform for the same content.

A Case Study in VoD

The Marquette-Adams VoD story

Marquette-Adams Telephone Cooperative of Oxford, Wisconsin has been offering VoD since 2010 and it is available to their entire customer base. For Marquette-Adams, VoD has become integral to their success as video service provider.

¹ Leichtman Research Group - 82% OF U.S. TV HOUSEHOLDS HAVE A DVR, NETFLIX, OR USE VOD, <http://www.leichtmanresearch.com/press/030617release.html>

Marquette-Adams freely admits that the video business is tough, but it doesn't have to be a money loser. By trying to stay ahead of the technology curve and by focusing on customer needs, Marquette-Adams has been able to make video profitable. VoD is certainly a contributor to that success.

"We make money off of video," says Jerry Schneider, CEO/GM of Marquette-Adams. "It's our lowest margin product, but it's not a loss leader. We still make money."

Marquette-Adams serves about 2,600 video customers throughout its service territory. As an example of the importance and impact of VoD on their video business, they point to their most recent month, which saw just over 3,000 VoD views from that customer base.

Schneider says he views VoD as a product differentiator for his video service, one that makes his video product more "sticky." It doesn't necessarily make money on its own, but it's a great contributor to making their overall video business profitable.

"I compute VoD's total cost and it costs us about .45 cents per subscriber per month on average," says Schneider. "We get a lot more bang for the buck with VoD than we do with some other channels."

Marquette-Adams offers both FVoD and TVoD services. Part of the differentiation VoD brings to their video product is the inclusion of local content on their VoD service. "The Innovative Systems platform has a 'What's Hot' feature for our VoD content," said Shane McCann, video engineer at Marquette-Adams. "One of our most watched assets ever is a tractor pull from a local county fair." Local content has a historical track record as a proven differentiator for pay-TV services. With VoD capability, that differentiation is expanded and multiplied.

Sharing VoD Costs and Experience

Schneider says he's pleased that the company decided to get into VoD. It hasn't always been an easy answer. With growing OTT competition and the costs associated with it, he understands some hesitancy.

"A lot of companies a few years back were looking at VoD, but a lot of the discussion about OTT at the time made them hesitant to come on board," Schneider says. "Well, some of those same companies now are wanting that VoD content."

To help reduce costs, Marquette-Adams is a key contributor to a consortium in Wisconsin that allows multiple companies to band together and share costs for VoD. Marquette-Adams has a master services agreement with their VoD content suppliers allowing them to work with other companies and jointly offer VoD service, lowering costs for all involved.

But it's not just hard costs that are important when thinking about VoD. "There's also an expertise investment," says Schneider. By pooling together, these companies learn from each other and Marquette-Adams has a ton of lessons learned and best practices to share.

That experience has seen a lot of VoD vendors come and go. One area that attracted them to Innovative Systems was the end-to-end solution for middleware and VoD. "Part of the appeal of Innovative Systems is their all-in-one service including their servers," says Schneider. "They're committed to the product and given our history of working with multiple companies and servers, it's nice to work with one end-to-end provider."

Promoting VoD

Another critical factor for success is marketing and customer education on VoD service. There too, Marquette-Adams has some valuable experience. For example, their company vehicle wraps don't just advertise TV service. They specifically advertise TV with VoD service.

Every new customer also gets a free VoD movie. "You have to get customers using the service and used to using the service," says Schneider. Marquette-Adams also uses TV advertising, including a dedicated VoD 'Barker' channel to promote their VoD service.

Next up for Marquette-Adams and their video services is 4K video, the next generation of HD. They are currently involved in a trial with satellite transport provider SES. In a nod to the continuing important role of VoD, they also will soon be in a position to offer 4K VoD content as well.

Meeting the Challenge of OTT

Give Them What They Want

As the LRG data cited earlier in this paper, customers increasingly want VoD content. It is then up to VSPs to offer it, or risk their customers going elsewhere to gain access to it. That's a fundamental competitive threat from OTT services, who have very deep and attractive VoD libraries.

But much of that content in those OTT provider VoD libraries is also accessible to traditional pay-TV providers. FVoD content is made up primarily from the TV shows and movies of linear cable channels/programmers. And traditional VSPs have access to that FVoD content through their existing content licensing agreements, and at no additional cost.

In fact, cable programmers encourage their VSP distribution partners to carry this associated VoD content. Programmers want their VoD content viewed because it can count toward Nielsen ratings during a certain window. VoD enables time-shifted content, which is extremely valuable to subscribers. They get to watch their favorite TV shows whenever it fits their schedule. Most popular TV shows offer the VoD version of that show 24 hours after the original airing date.

Comcast Technology Solutions is a provider of VoD content to VSPs. They deliver content both through satellite transport and terrestrial fiber. They work directly with programmers like NBCUniversal, Fox, and others to deliver their on-demand TV show and movie content libraries.

"Most of the content we provide is free VoD content," says Allison Olien, director at Comcast Technology Solutions. "Set-top-Box VoD content is a programmer paid service," meaning there is no additional cost to the VSP for this content. The programmers pay Comcast Technology Solutions to deliver the content to VSPs.

Comcast Technology Solutions sees growing demand for the service they provide. "It's more of an on-demand, time-shifted world and that trend is not going to change," says Olien. "We have to keep accommodating the needs of customers and on-demand does that, it makes popular TV shows available anytime and customers appreciate that."

Conclusion

VoD allows traditional VSPs to effectively compete with OTT options. By offering VoD service, VSPs keep customers away from looking elsewhere for the content they want. It is in effect, a battle of the TV input. If a VSP's set-top-box is on input 1 of the TV, the goal is to keep subscribers on input 1 all the time, and thus keep them subscribing to their pay-TV service.

If customers look for content elsewhere, they switch TV inputs to a streaming media device like a Roku box. But why give them the opportunity to do so? If they find all the content they need on input 1, there is no reason to switch to any other input. And the less likely they are to switch inputs, the less likely they are to cut the video cord.