

# DIGITAL TV ~ SKINNY BUNDLES & CORD SHAVING



Whitepaper

## 1.1 Introduction to Digital TV & Video

The digital TV and video market has grown to encompass both online and mobile delivery of video media, this may occur via network operator owned services, such as IPTV (Internet Protocol TV), or through OTT (Over The Top) services such as Amazon Prime, or Hulu. Below we outline the formats covered in our research:

### 1.1.1 Content Formats

#### i. VOD (Video on Demand)

In the research, Juniper has provided analysis of 3 key forms of VOD; these include SVOD (Subscription Video on Demand), TVOD (Timed Video on Demand) and FVOD (Free Video on Demand). We also include DTO (Download to Own), where customers can purchase a digital copy of content to keep and watch when they want.

#### a) SVOD (Subscription Video on Demand)

Popular OTT services, such as Netflix and Amazon Prime, utilise SVOD, which charges either a monthly or annual subscription fee to consumers, then provides them with access to content.

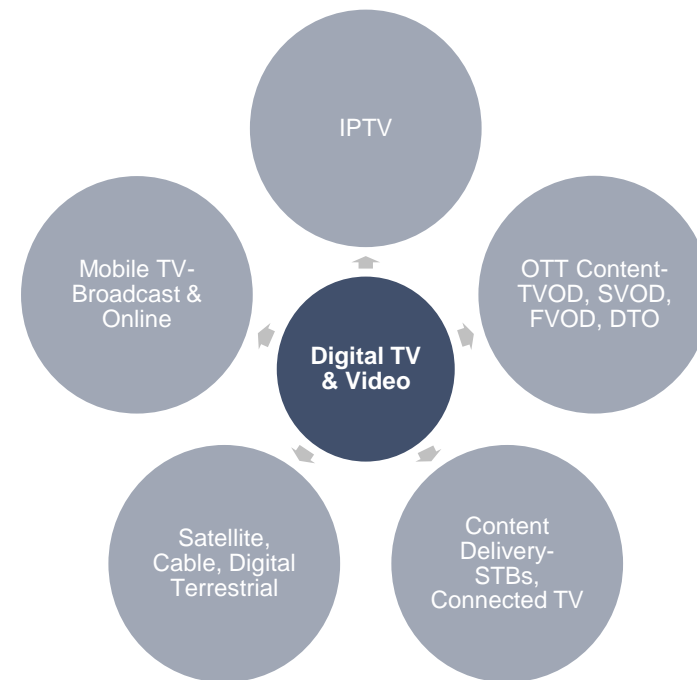
#### b) TVOD (Transactional Video on Demand)

This is seen as a more modern incarnation of video or DVD rental, TVOD allows users to stream a movie or TV show for a limited period (often 24-48 hours) at a price point lower than that set for DTO or subscription costs.

#### c) FVOD (Free Video on Demand)

Free video services are most closely associated with the streaming giant YouTube. These services allow the vast wealth of their content to be accessed free, with the host site monetising through advertising.

**Figure 1: The Digital TV & Video Market**



Source: Juniper Research

## 1.2 Key Trends in the Digital TV & Video Market

### 1.2.1 Going OTT: Cord-Cutting & New Services

Several broadcasters and TV network providers have attempted to match OTT players by offering their own online and on demand services. Most notable is the move by HBO to offer their own subscription service to their TV shows via an online subscription service called 'HBO Now'. This move was significant as HBO offers some of the most popular and sought after content in the TV and video space, for example *Game of Thrones*, *The Wire* and *Boardwalk Empire*, as well as numerous movies, documentaries and news shows.

Moves by consumers to take up such offers have been dubbed 'cord cutting', with customers cancelling their more expensive cable and satellite subscriptions and favouring cheaper, smaller packages instead which offer content through online channels, hence providing access to on the go and across devices.

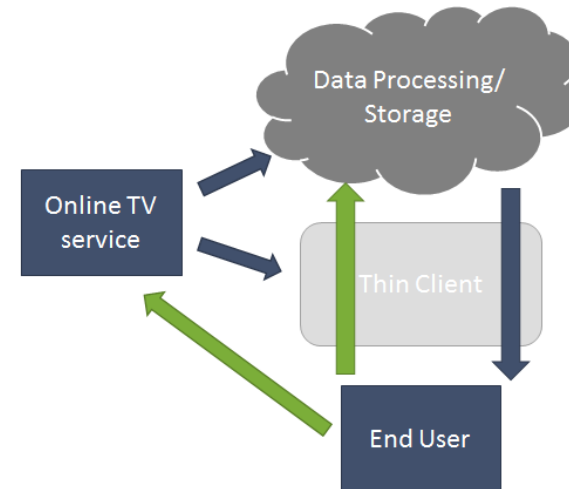
### 1.2.2 Content Delivery via the Cloud

As Figure 2 shows, the process for media delivery via the cloud offers a great advantage in terms of storing content and in meeting customer demands for TV and video.

However, there is an issue with bandwidth consumption, as the provider has to upload the media to the cloud before it can be downloaded by the consumer, meaning that content is actually being sent twice.

The 3 key areas that can benefit from the cloud model are broadcasters such as the BBC, content providers (for example Hollywood studios) and pay TV operators such as Sky.

**Figure 2: The Online TV & Video Cloud Value Chain**



Source: Juniper Research

### 1.2.3 Internet Subscription to Cable & 'Skinny Bundles'

#### i. Internet Services

Whilst free video has proved to be a hit with consumers, for example services like YouTube, Youku and Twitch, there has been a move to monetise these services via subscription and PPV (Pay per View), rather than the through the more common advertising based models.

It is now said that video hosting giant YouTube has initiated plans to offer some popular cable channels via its online platform as part of a premium subscription package. The service is known as 'Unplugged' and may launch as soon as 2017, however none of the 'big name' cable brands (Comcast, NBC Universal) are currently signed up to the project, although it has been reported that they are in talks.

It is believed that content will be offered in the form of certain packages, for example, comedy, lifestyle, movies etc and could also be offered in cheaper 'skinny' bundles. This would appeal to consumers, many of whom want to move away from being tied to expensive cable company packages; it would also benefit the cable companies themselves as they would still have some revenue, rather than having customers move to a purely OTT provider like Netflix.

As well as YouTube, Hulu has also announced plans for an online service providing live channels to customers, with the platform due to launch in Q1 2017, including broadcast channels offered at a price point of \$35 per month.

#### ii. 'Cord Shaving'

In addition to 'cord cutting' a new trend is emerging, called 'cord shaving', whereby users attempt to reduce the cost of their subscriptions, seeking out 'skinny bundles' of the content they desire, rather than paying for hundreds of channels, many of which they will never watch.

Walt Disney, the parent company of ESPN, has reported that the network saw a fall in subscribers of 7 million between Q4 2013 and Q4 2015, reaching 92 million. It is thought this could fall below 87 million by the end of 2016. This could force the service to launch its OTT platform; if the

concept of cord shaving continues, those services which rely on carriage fees linked to subscriber numbers, could go out of business. So whilst skinny bundles and cord shaving are heralded as being a potential saviour for cable companies, with their attempt to reduce cord cutting, the practice may inadvertently negatively impact companies which rely upon carriage fees.

### 1.2.4 Original Content

One area where OTTs have succeeded is the provision of original content, which arguably sees them becoming more like traditional broadcasters and content providers. Examples include Amazon's *Man in the High Castle*, and Netflix's *Orange is the New Black*. The provision of original content sees whole series launched instantly (rather than episode by episode, as part of a schedule on normal broadcast TV) and has given rise to 'binge watching' where consumers will watch many, or even all, episodes of a programme in one sitting.

#### Figure 3: US TV: Industry Snapshot



**116.4 million**

US TV homes for the 2015-2016 season.



**46.9 million**

US memberships to Netflix as of Q1 2016.



**15%**

Proportion of US households to own a 4K TV by the end of 2016

Source: Juniper Research, referencing Sony and Nielsen data

### 1.2.5 Provision of Content

One challenge faced by OTTs is keeping their libraries stocked with content which consumers want to see.

Recently it was reported that Netflix has seen a decline of 33% in its movie library from 2014-2016. This has led many to believe that rival US service Hulu will soon overtake Netflix in terms of content available to customers. It is available as an ad-supported service or as an ad-free subscription package, Hulu also has a VR (Virtual Reality) app on offer to consumers, which is available on Gear VR and Oculus Rift, well ahead of Netflix, who previously said they are not planning to offer VR content.

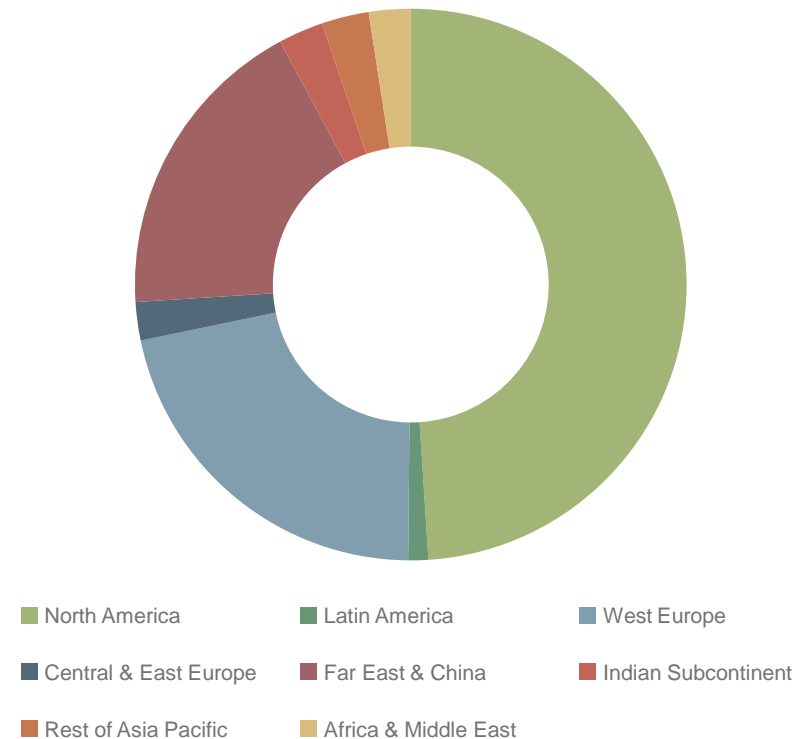
A number of OTTs already supply a large amount of original content; one method of drawing customers to their service offering; although much of this is produced in the US, meaning should the EUs proposals pass, OTTs will have to refocus their efforts.

### 1.3 Digital TV & Video Forecast Summary

Juniper Research has found that revenues from SVOD services, such as Netflix and Amazon, will more than double from \$14.6 billion this year to \$34.6 billion in 2021.

Netflix now has US subscriber numbers level with leading network providers DirecTV and Comcast (47 million and 47.7 million respectively).

**Figure 4: Total Revenues for SVOD Services Split by Region, in 2016: \$14.6 bn**



Source: Juniper Research

- Whilst western markets currently dominate SVOD revenues, there has been recent expansion and growth in new markets. In January 2016 market leader Netflix rapidly expand its service availability; currently the

only locations in which Netflix has not launched are China, Crimean Peninsula, North Korea and Syria.

- a) Even though Netflix has not yet set foot in China, the Chinese market has had a number of domestic SVOD service launches. However, censorship and state regulation are a major barrier to western providers seeking to gain a foothold in China and it is likely that this is playing a major part in Netflix's delay.
- Average SVOD pricing has been relatively low, but Juniper expects the movement of consumers to higher tier pricing over the next few years, as they seek better quality content (such as 4K) and the availability of services on multiple devices.