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T H E W H I T E P A P E R S



The Piksel Whitepapers
Modelled For Success

Piksel, Inc.
New York. New York.
March 2015



There are literally hundreds of variables and permutations that need to be considered when developing an Internet TV service. Depending on what kind of provider you are – content creator, broadcaster, MCN or MSO, the path to profitability can look very different. To help mitigate risk and position you for success, starting with a robust business model is a right first step. This whitepaper outlines what you need to consider to get started.



MODELLED FOR SUCCESS

UNRAVELING THE COMPLEXITY
BEHIND CREATING A VIABLE
INTERNET-TV BUSINESS

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THE GROWING OPPORTUNITY

The Internet TV revolution has proven more disruptive than any other aspect of the broadcast industry since the introduction of satellite reception. Where TV was locked within national borders and limited spectrum, the internet has allowed new players to challenge established monopolies and content owners to bypass traditional restrictions. The new wave of internet TV services seem popular with 2013 research from analysts firm The Leichtman Group, suggesting that 44% of US households had at least one TV set connected to the internet, up from 38% in 2012. By 2014, one-third of US adults surveyed reported watching OTT content daily which is nearly double what it was in 2012.

With the exception of a few notables such as VC funded Netflix, most of the players in the Internet TV market are already in some form of broadcast, media or communication business. With the annual TV industry worth an estimated \$485 billion by 2018 according to analyst firm iDate, the temptation for content owners and telecommunication providers to encroach into the space alongside traditional broadcaster is pressing. Yet a diverse range of motivations and challenges are faced by these companies.



THE CONTENT OWNERS

For an organization that already owns large amounts of content but no direct billing relationship with end customers, the sign-up process is a major challenge. This is especially true if the content is already out in the market via licensors that were once customers but now potentially rivals. The skills, technologies, and relationship requirements offer a significant hurdle while the risk of brand damage if an internet TV service is executed poorly is significant.



THE BROADCASTERS

Many traditional broadcasters that have built a viable model sustained by advertising revenue are heading to the internet as a natural extension to existing operations. Although often experienced in dealing with linear advertising, the internet poses a massive conundrum in terms of aligning a base of paying subscribers and advertiser funding without cannibalising revenues. In addition, the technical challenges of building, deploying and managing a service are distinctly different from the traditional broadcast TV environment.



THE MULTI-SERVICE OPERATORS

For MSOs predominantly from the telecommunication space, the existing billing and communication infrastructure seems a natural fit for a foray into internet TV. Yet, the business skills of managing content agreements and production workflows are not native to the communication business. In addition, although often recognized brands, these relative TV newcomers have little kudos with prospective viewers. In some cases, the rationale for getting into internet TV is less about becoming profitable TV networks but as a value-add to sell more broadband and telephone lines as part of a quad-play offering.

READY FOR LIFT-OFF

The younger Internet TV market offers greater variety of business models and operational priorities when compared to the traditional broadcast industry. Potential operating and revenue models include:

- Pay-per-view
- Subscription
- Advertising funded
- Value Added Service (for example VoD as part of Amazon Prime priority delivery service)
- Gambling Supported (TV services supporting online betting services)
- Public Service Funded (for example Internet based TV services for UK armed forces)
- Hybrid TVoD / SVoD
- Quad Play to support broadband services (For example BT sports Internet TV service)
- Internet TV for Smart TVs and Games Console



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For each of these potential Internet TV operating models to succeed, it must factor in many variables. For example: the cost of content and its licensing restrictions and the ability to sign up and retain customers without a pre-existing billing relationship. Then the actual cost of service delivery, support and service management adds to the challenge of setting competitive pricing and a go-to-market strategy. Although Internet TV using the IP protocol can be international, the complexity of transnational content licensing, delivery and even regulatory restrictions further complicates service delivery.

COMPLEXITY AND CHANGE

There are literally hundreds of variables and permutations that need to be considered when developing an internet TV service. The model is also different for each geographic market and evolves over time, particularly as socio economic, regulatory and broadband adoption patterns change. To give just one example, pricing for an new OTT/VOD service launching in Germany needs to take into account existing ARPU spend from the audience, incumbent suppliers, broadband availability, cord cutting trends, current demographics and changes plus a host of technical challenges.

However, before you can set a price, the fundamental question of how much the service costs to deliver is a surprisingly complex one. In an almost chicken-and-egg situation, working out the cost of a service before launch is difficult simply because few organizations have the real-world data to help calculate the costs.

HUMAN RESOURCES SHORTFALL

Another issue is lack of skills. As TV networks become subscriber driven and telecommunication companies start to become broadcasters, the inherent skill sets are simply not present in many cases. The more esoteric skills around the creation and workflow of video content for the internet are uncommon and the bleeding edge of the industry is a particularly fast moving target. In many cases, new entrants do not have the deep pockets to simply build everything themselves in-house and are turning to disparate third parties to build discrete elements of the final service that can be fitted together to form a cost effective whole. This assembly process requires business analysts to wrestle with financial, technical, content and branding challenges in a young market that is evolving quickly.



THE BENEFIT OF INTERNET-TV BUSINESS MODELLING

Internet TV business modelling (ITVBM) is a process used to help understand the market, build and test potential service offerings. In the case of the software created by Piksel, this pulls together around 230 variables that define the market and key inputs, processes and outputs that are inherent within an internet TV service. However, unlike a purely hypothetical model, the ITVBM is based on real world stats collated from historical, current and ongoing internet TV projects alongside statistical data from the given market.

CAPTURING THE VARIABLES

The model looks at the technical aspects of the service creation and ongoing delivery in the context of market forces. These could include the cost of subscriber acquisition, incumbent rivals and specific adoption patterns based on local elements. However, the model is not a one-hat-fits-all approach and is actually bespoke, built from different modules depending on factors such as type of proposed internet TV service, region, monetization model and existing agreements.

One of the key benefits is an ability to provide a check list and validator of the requirements needed to deliver a service. Each of these major steps such as content licensing and subscriber sign-up are in fact broken down into multiple sub-processes that are codified into inputs, costs, processes and output while taking into account dependencies.

The 230 variables that currently make up the model range from simple steps such as:

- What is the size of the library?
- How many new items are added each month?
- What is cost to transcode each asset?
- What is the retention period for each asset?

To much more complicated calculations that are dependent on local factors and demographic of the audience such as:

- What is the available market size?
- What is the marketing cost of reaching 1% of the target audience?
- What is the transactional cost of delivering one hour of content?
- How many concurrent subscribers should the service support?

THE BENEFIT OF INTERNET-TV BUSINESS MODELLING

BRINGING IN STAKEHOLDER KNOWLEDGE

One of the major challenges is that internet TV services require disparate groups from across the business to work together. However, the level of knowledge and specialization makes it hard to provide a consistent framework for these groups to work within. The model allows these different groups within the business such as technical, customer service, marketing and legal to provide input in a structured and consistent fashion that standardize units of measurement, currency and time scales. In the way a blueprint helps a team of building sub-contractors work coherently, the ITVBM can become that initial blueprint to help define a viable strategy.

With the assumption that many parts of the service will be built or maintained by a third party, the model also helps businesses to define a Request for Proposal (RFP). By creating a set of standardized terms and processes that can be clearly defined and costed within the context of service delivery, the model can help a firm compare different RFP responses. In some cases, the model will actually point out a clear deficiency where a key factor has not been considered as part of the proposal or wider go-to-market strategy. This is often because an assumption was made that a key step was actually part of another process but not explicitly built into the delivery plan.

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THE BENEFIT OF INTERNET-TV BUSINESS MODELLING

LIMITATIONS AND “WHAT IF?” SCENARIOS

However, like forecasting the weather, the ITVBM is not infallible. Although the technical side of the model is much more deterministic, the ability to predict subscriber adoption is far harder. The subtleties of subscriber preference, the reaction of incumbent rivals to the launch of a competing TV services, even wider economic downturns are all variables that are incredibly difficult to factor into a model. In markets with staid incumbents and limited choice, the model seems to have a high degree of accuracy while more crowded and volatile markets make forecasting harder. However, what the model can offer is the ability to examine ‘what if?’ scenarios:

- For example, if an incumbent rival dropped subscription fees by 20%, could the modelled service do the same and still make a profit?
- Or if we wanted to offer a special HD upgrade, what would be the cost increase on the delivery side?
- Could using an alternative DRM platform reduce our transactional per asset delivery costs?
- Are there any content areas such as kids programming or sports that are currently under viewed that may allow us to reduce our content acquisition costs without impacting our subscriber satisfaction?

In fact, this range of “What if?” scenarios can actually lead to some interesting creative thinking that allows a low risk method of looking at unusual business models without picking unrealistic numbers from thin air.



THE BENEFIT OF INTERNET-TV BUSINESS MODELLING

SIMULATED CONSUMER MODELLING

In addition, the model can also simulate what will happen to the service based on an understanding of the actual subscriber base and wider trends within a particular type of Internet TV business model. For example:

- What is the optimum price to sell content to achieve a profitable market penetration?
- What is the likely subscriber sign-up of “free month trial” promotions?
- How long do certain content types need to remain in the archive and under license before lack of consumer interest makes the content unprofitable?

BENCHMARKING

The use of benchmarking tools can help test the service against known best practice and to find ways to both improve service delivery and cut costs. With real operational data replacing hypotheticals, business analysts can start to examine ways to improve the service such as:

- Cost benefit analysis of outsourcing content preparation processes that currently reside in-house?
- The rational of negotiating deals with other broadcasters or operators to forecast likely net-new subscribers versus current acquisition?
- Impact of promotional and marketing campaigns against predicted subscriber growth trends?



HOW CAN PIKSEL HELP?

The Internet TV Business Modelling (ITVBM) tools and complementary services have been developed by Píksel based on more than a dozen years of delivering Internet TV projects for customers in both emerging and established markets. The model was built through the input of hundreds of subject matter experts and was, for many years, simply an internal tool to help understand projects.

Although there are many advantages and reasons to adopt Píksel's ITVBM, one of the most compelling is to mitigate risk. The sheer complexity of the TV industry and the shifting sands of the internet make for a tricky proposition. The value of what is essentially an expert system backed by deep technical and real-world experience can uncover deeper business strategy insights and help to launch and sustain profitable internet TV businesses.

With many more projects already in the pipeline, the Píksel ITVBM platform is supported by Content Acquisition services and innovative operating models including partnership and revenue-share opportunities to allow operators to enter challenging new markets while mitigating risk.

LET'S TALK



UNRIVALED KNOWLEDGE

We help the world's leading brands maximize their reach and return with video.

Comprised of a global team of experts we call 'Televisionaries', Píksel has helped to design, build, and manage online video services for major media companies like AT&T, BSkyB, Mediaset, and Sky Deutschland, as well as enterprise brands like Airbus, Barnes & Noble, and Volkswagen.

Headquartered in New York City, Píksel offices can be found throughout Europe and the Americas.

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