

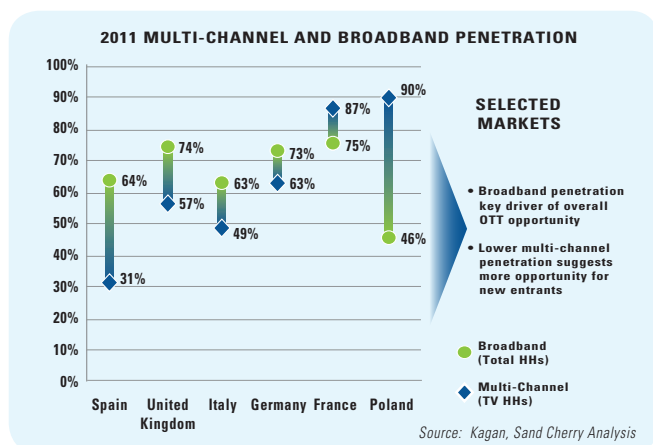
Vantage Point: Over-The-Top

Your path through the OTT landscape – Choose Wisely!

THE OVER-THE-TOP LANDSCAPE:

“Rapid and Disruptive Change”

The TV world is changing quickly with the growth of Over-The-Top (OTT). One-third of U.S. households now have a connected TV and consumers are increasingly watching OTT-delivered video. Meanwhile, the global number of connected devices will continue to expand, more than tripling in the next five years. And competition is proliferating, especially in content packaging and distribution. New competitors are also expanding internationally, targeting markets with higher broadband penetration and lower multi-channel penetration (e.g., recent Netflix entry into Spain).



Clearly, these developments will affect industry incumbents. Rather than watching on the sidelines, they need to be engaged now. But what are the key OTT threats and opportunities, and what should they be doing now—in terms of product development, partnership and operations?

INDUSTRY IMPLICATIONS:

“Where You Stand Depends on Where You Sit”

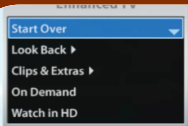
Content aggregators such as basic cable networks and premium channels are facing the emergence of new TV viewing brands (e.g., Netflix, Hulu, LOVEFiLM in Europe),



competitive pressure constraining subscriber growth, and possibly an expansion of alternative models such as a la carte viewing. Longer-term, audience fragmentation will drive down ad revenues and put pressure on licensing fees.

Distributors such as cable and satellite companies also face challenges such as ARPU pressure through substitution of existing premium services. Direct competitive threats are relatively minor over the next few years, as new entrants such as Netflix and LOVEFiLM are primarily complementary services rather than substitutes for multi-channel television service.

New OTT entrants are facing challenges as well. With increased demand for distinctive content, the days of cheap streaming rights are over. OTT players need to increase content spending to compete and this is putting pressure on financial metrics and, in particular, attractive consumer pricing. In this OTT environment, incumbents want to be well-positioned to both increase distribution and customer engagement while managing new competitive threats.



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BUILDING AN OTT STRATEGY:

“The Virtuous Circle”

Incumbents looking to achieve success in the OTT space can pursue three themes that collectively represent a “virtuous circle” of growth—in consumer engagement and potentially in distribution.

Original Content Programming.

Original content programming has value not only as a differentiator, but exclusive rights are necessary to fully explore alternative viewing platforms that allow programmers a direct-to-customer relationship. Major and independent content programmers are making big pushes into original content programming for differentiation and experimentation with new platforms and marketing.

Alternative Viewing Platforms.

Developing incumbent OTT platforms (TV Everywhere) can engage customers, especially the most attractive segments, and build important new capabilities in areas such as technology and rights management. For example, the HBO Go offering allows authenticated customers access to HBO content via web, iPad, and mobile devices. On the distributor side, Liberty Global has announced the ambitious Horizon hybrid TV/web platform, to be run on a home gateway featuring an app store.

Social Media Marketing & Distribution. Social networking is closely linked to TV viewing. This includes rating and reviews, consumer feedback for content developers and aggregators, and increasingly content viewing and user-generated content development. For example, Warner Brothers has offered Dark Knight and The Matrix downloads in exchange for Facebook credits.

“THE PARTNERSHIP PARADOX”

Companies need to consider new partnerships to trial multi-platform services (e.g. TV Everywhere) and new business

models (e.g. Direct-To-Consumer). At the same time they need to preserve and strengthen relationships with existing partners. These partners are also seeking to innovate, and combined activities between and among content providers and distributors can yield significant differentiators versus new competitors.

THE TAKE-AWAY:

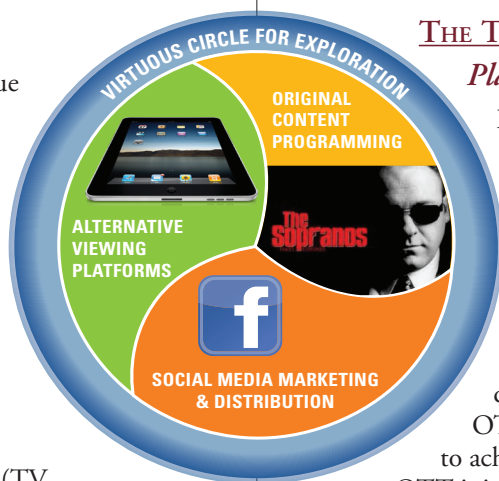
Planning Questions Going Forward

Despite market uncertainty, companies must remain focused and proactive, developing and executing against a specific set of priorities.

• **Basic Planning Considerations.**

How should you position and brand yourself in the OTT World (e.g. niche versus broad-based)? What capabilities do you need to build to succeed in the OTT World? Where to build/buy/partner to achieve these? In considering the range of OTT initiatives, what prioritization/timing makes sense and what are the quick wins?

- **Content.** To what extent should you focus on original programming in the OTT environment? How should you influence or adapt to content windows? Going forward, how should you manage streaming rights?
- **Aggregation & Product.** How should you evolve your program/channel line-up? How can you incorporate social media elements into your products? How should you evolve any existing initiatives? Are there new models, (e.g. a la carte, or new On Demand variants) that you should consider pursuing?
- **Distribution.** To what extent should you pursue a direct-to-consumer strategy? Is this an attractive form of new market entry? How should you manage your relationships with existing distribution partners? To what extent should you do deals with OTT Providers?



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