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Redefining Viewer Relationships: The New Approach in OTT

A Parks Associates Whitepaper Developed for Merkle

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Redefining Viewer Relationships: The New Approach in OTT

The emergence of over-the-top (OTT) media, which bypass traditional broadcast and cable platforms to stream video content online, has changed the landscape of the entertainment marketplace and the nature of relationships between media providers and consumers.

The massive volume of new services and widespread adoption by consumers has produced a streaming-first environment for entertainment.

As video consumption has shifted to become streaming first, many companies in the entertainment and media industries have awakened to the need and reality of establishing a direct relationship with viewers.

Direct viewer relationships were once perceived as an unnecessary cost, one best left to broadcasters and multichannel video programming distributors (MVPDs), such as cable and satellite providers. At that time, few content producers considered consumer feedback as essential in content creation and even fewer sought direct engagements with viewers, much less call centers.

In 2018, 36% of broadband households subscribe to two or more of the 220 available OTT video services in the U.S.

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Today, the game has changed. Direct, one-to-one relationships with consumers are necessary, and ongoing communication is critically important. More pathways for viewer feedback exist, and the velocity of interaction is faster, allowing companies to get consumer feedback almost immediately.

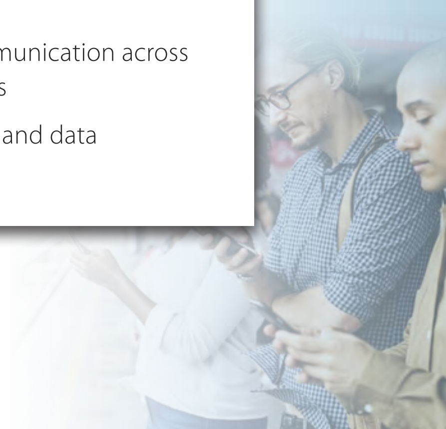
> Consumers expect media companies to know them and to be available to communicate in real time via their social channels.

Parks Associates sat down with some of today's leading companies to understand how they are adapting to become consumer-first organizations in an era of increasingly engaged viewers.

Organizations must reconsider all aspects of viewer interaction in order to effectively compete in the new connected world.

Key issues:

- Repositioning for changing consumer habits
- Broadening the approach to branding
- Leveraging new opportunities for monetization
- Driving promotion and communication across screens and new touchpoints
- Embracing new delivery, UX, and data technologies



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Changing Consumer Habits

The shift from traditional media to streaming media has accelerated. More than 100 OTT video services with a variety of business models have entered the U.S. video services market since the start of 2015, and the market has reached a tipping point in video service adoption.

Current-day viewers have grown up in a hyper-connected, interactive world that responds to their interests with a click, swipe, or downloadable app. Young viewers in particular are voracious consumers of online content. Computer viewers under age 35 watch more than twice as much video from online sources than do those 45 and older.

- **Television viewers under age 45 watch 50% more video from online sources than do those 45 and over.**
- **Over half of millennials, Generation Z, and Generation Y consumers with broadband subscribe to two or more OTT video services.**

U.S. Broadband Households

77% currently subscribe to pay TV, a drop from 87% in 2014.

Over half have a subscription to both a pay-TV service and one or more OTT video services.

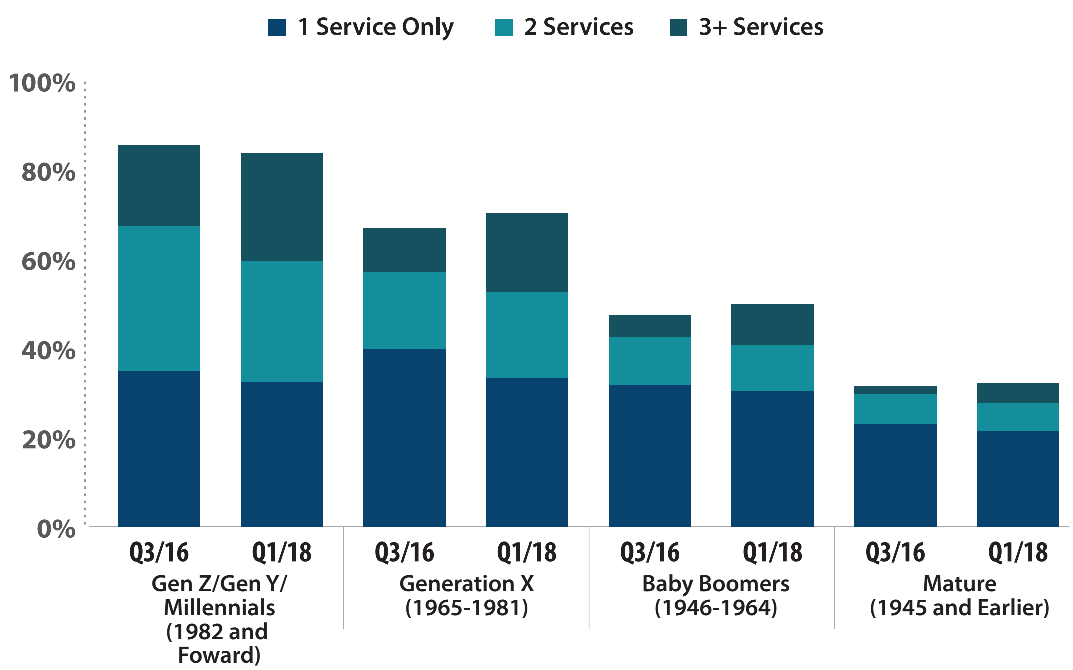
Over half subscribe to Netflix.

38% currently subscribe to two or more OTT video services, up from 21% in mid-2015.

5% have never subscribed to pay TV.

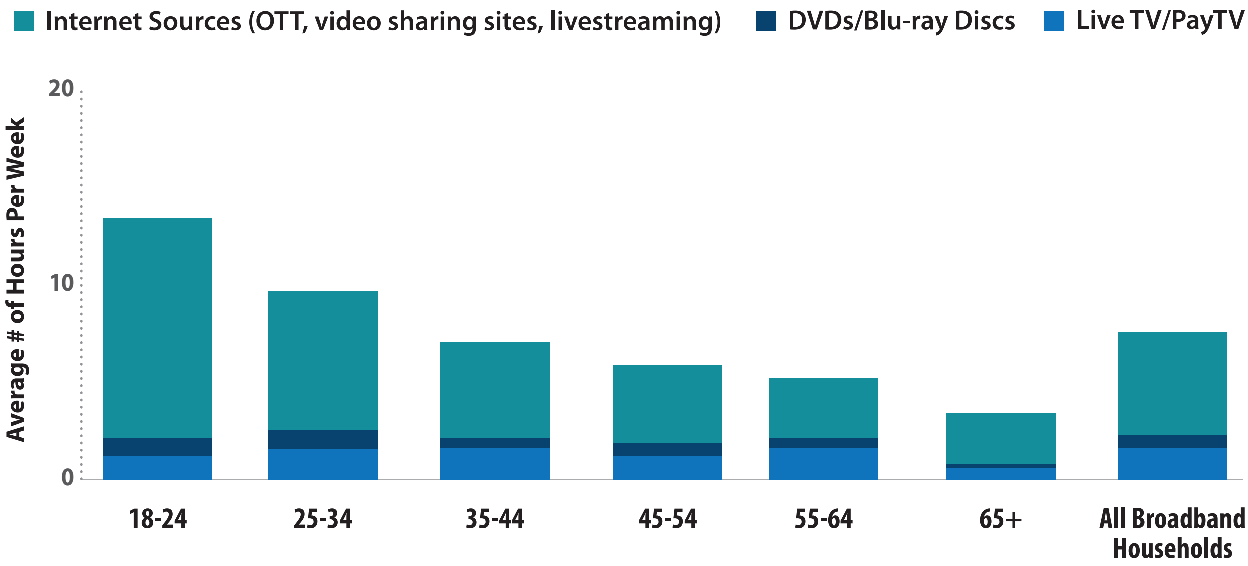
Number of OTT Service Subscriptions by Generation

U.S. Broadband Households



Average Video Consumption on Computers by Sources, by Age

U.S. Broadband Households



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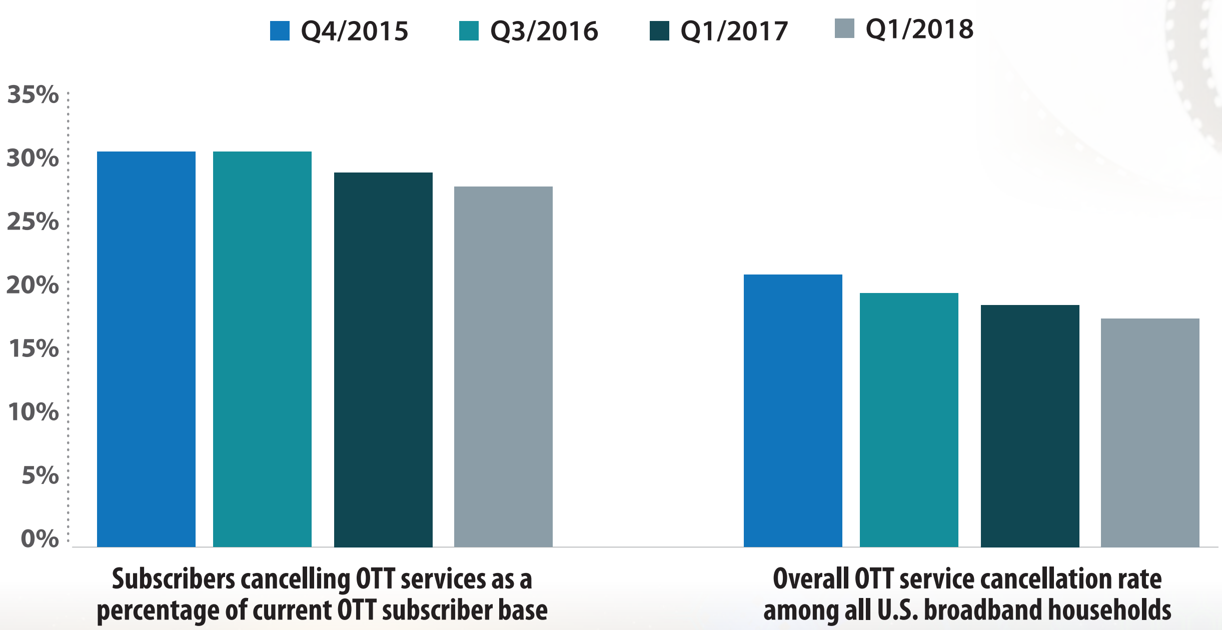
While adoption of multiple OTT services is increasingly common, churn is also common.

In part, the uptake of OTT video happened quickly because services were easy-to-subscribe and easy-to-cancel. The fact that a steady 30% of OTT-subscribing households have cancelled one or more services within the past year speaks to the transient nature of OTT service loyalty and the need for ongoing engagement with consumers.

Subscribers Cancelling OTT Service



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Consumers now want, and expect, to connect with their entertainment, becoming involved rather than simply viewing. Passionate users want to be part of the viewing experience. They want to see aspects of themselves in the content and want to identify with the stories that are told.

Opportunities for interaction produce valuable data on consumers, and greater volume, depth, and granularity of person-level data facilitate more compelling interaction.

Not all companies have equal access to in-depth data. Today, there are data-rich players and data-poor players.

The needs of content providers and the interests of consumers benefit each other.

Established OTT, pay-TV, and communications companies have a clear advantage as data-rich players in many areas. **Netflix uses viewing data about its subscribers to drive investments in successful original content.**[1]

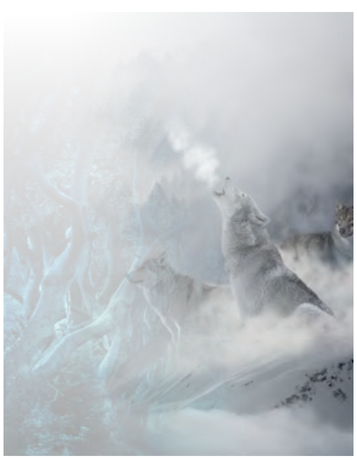
Data-rich Players	Data-poor Players
Own first-party data, collected from users accessing their content services	Rely on data partners and platforms to successfully measure, reach, and achieve real people-based marketing

Promotion and Communication across Experiences and Touchpoints

At one time, when consumption was exclusively on the television, networks could use a single, popular show to "win" primetime viewership for the night. Leading and trailing programs would also perform well, which drew advertisers eager to reach large audiences.

The new on-demand world has dramatically changed that model. Now that viewers watch on their own schedules, each program must stand on its own and prove its appeal from the pilot episode. This change affected the way that stories are told and promoted, forcing companies to market each of their series on its own merit.

Industry leaders agree that communication must be 360 degrees to be effective, encompassing all of a company's related brands, distribution channels, and communication outlets in order to be effective. Early-to-market leaders are leveraging recommendations, banner space on streaming devices, social media, and influencers to drive awareness and interest.



Use of first-party data and new media touchpoints produces new creative opportunities to promote their brands.

In 2017, HBO used a Facebook Live event to promote its popular series *Game of Thrones*. Tens of thousands of users participated, interactively melting a block of ice in order to reveal the premiere date of the seventh season.

[1] Grant, Kristin Westcott. Netflix's Data-Driven Strategy Strengthens Claim for 'Best Original Content' in 2018. *Forbes*. May 28, 2018.

Companies are also integrating common themes and messages across live content, such as newscasts and talk shows, using their connections with consumers to identify topics that resonate. Some are also hosting face-to-face events to deepen and diversify their audience connections.

Importantly, leading media companies are leveraging their newfound data from direct-to-consumer services and consumer touchpoints to continually build and reinforce viewer relationships. The result is optimized promotional approaches that more effectively reach and engage the right audiences, both in promoting a show to the right viewers and in introducing a viewer to multiple shows that interest them.

A Broader Approach to Branding

In the past, media and entertainment companies' interaction with potential viewers and fans was simple – drive them to a website or retail store to enable product and service education. Products and content stood on their own.

Branding in the entertainment world is complex—content providers often struggle with branding their streaming service vs. their content vs. their corporation or network. Many content and streaming providers are approaching this differently, but one commonality remains: consumers have higher expectations of brands due to today's interactive world. And since consumers have a greater command of their viewing choices, being closer to the audience and in tune with topics relevant in today's society is critical to winning viewership and subscribers.

Branding has more associated elements beyond brand promise and value proposition.

> Media and entertainment companies must also address identity, quality, trustworthiness, and authenticity, particularly among young audiences.

> Success is dependent upon how well companies reach, engage, and build relationships with viewers and how well they communicate their brands' values.

Evolving Brand Ingredients

Yesterday	Today
Brand Promise	Brand Promises
	Value Proposition
Value Proposition	Values
	Positions
Limited Consumer Feedback	Universal Presence
	Constant Feedback
Static	Dynamic

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In addition to considering these factors, companies have to do this globally, with each region having unique set of challenges, audience motivations, and expectations.

Instead of brands being judged by the quality of their products or the value they offer, they are judged by factors such as positions taken on social issues of interest to consumers. Examples range from Apple designing its products with user data privacy in mind to large food and drink chains banning plastic straws for the good of the environment. Taking positions on social issues can be polarizing, building loyalty with some consumers while alienating others. Focusing brands around consumer values and new facets of branding makes brand consistency an important challenge for media and entertainment companies, and it requires a broader vision in communication and interaction strategies than before.

Companies must have a deep knowledge of their target customers and continually evolve in order to stay relevant.

Managing a brand to meet ever-evolving customer priorities requires constant monitoring of audiences. Shifts in preference or socially important topics are often nuanced in the beginning before exploding into mass-market changes.

"…life is in constant motion, the world is in constant motion, you are in constant motion and Globo is in constant motion to keep up with the rapid pace of life, the world and you." – Globo Communication

Machine learning systems or other big data tools, along with contextual third-party data, can help companies identify growing trends in time to manage the impact and positioning of their brands.

Leveraging New Opportunities for Monetization

Direct revenue from an OTT video service is the most clear-cut monetization opportunity for media companies in moving to streaming. OTT business models vary greatly depending upon the type of content, target audience, and KPIs (key performance indicators) within the company launching the service.

Ad-based models, either combined with subscription or fully ad-supported, have the advantage of scaling revenues with viewership. In-depth, person-level data on users and their preferences allows services to enjoy the higher ad rates that come with targeted advertising. The addition of a third-party data partner can also further services' advertising opportunities.

OTT subscription models are the most popular. In the U.S. market, over 80% of available OTT video services, and 90% of those introduced since 2015 offer some type of subscription option.

Several data-rich players in the OTT space, such as Hulu and cable networks with authenticated TV Everywhere applications, require logged-in viewing experiences. While registration is an ease-of-use obstacle for some consumers, this approach results in complete ownership of users' viewership data, a coveted asset in media and entertainment.

Effective data use impacts direct revenues beyond advertising.

NETFLIX

Netflix proved the importance of effectively merchandising content within its SVOD service. The OTT giant uses a combination of A/B testing and a deep understanding of user preferences to minimize subscribers' time spent seeking content. In this way, Netflix continuously proves its value to consumers, which contributes to subscriber retention.

Merchandising can extend to transactional purchases of digital media, physical media, live events, or content-related merchandise. Services can also use data analysis to identify patterns that would suggest potential user intent to cancel or potential willingness to upgrade, allowing providers to incent the desired user action.

Business Models of OTT Services Launched Since 2015

Business Model	Number of Services
Subscription	92
Advertising	7
Transactional	7
Subscription/ Advertising	23
Subscription/ Transactional	13
Subscription/ Advertising/ Transactional	2

Embracing New Technologies

For many content producers, content creation and business-to-business video technologies are far more familiar than direct-to-consumer technologies. While distributors are accustomed to the design and support of service-oriented user experiences at scale, content creators are experiencing the steep learning curve of coming up to speed on the tech stack and workflows for OTT video. An inability to understand the necessary technologies can doom a service, regardless of the quality of its content.

Key elements for consumer services

App development for connected consumer devices
Consumers in each market expect services to support their favorite devices, which can vary greatly from market to market. A poor app experience will alienate users.

Content packaging, delivery, and content management
These components impact the quality of the video viewed, which directly influences perception of the content and the provider.

User experience and discovery
Personalized user experiences and discovery incent service retention. In addition, content is only valuable to consumers if they can find and consume it.

CRM, authentication, and payment systems
Consumers expect these systems to be effortless. If users have to hassle with access issues, they are unlikely to keep a service.

Advertising technologies
From addressability to seamless playout, a good advertising experience is as important as a good content viewing experience for service users.

Data collection, management, and use
The insights produced can enhance all areas of the service and provide a competitive advantage if leveraged correctly.

Becoming a Consumer-First Entertainment Brand

Leaders in entertainment shared several views on ways that companies can become more consumer first. The following themes stood out as key learnings and having the greatest impact.

1. Be Social and Listen

Effectively listening to consumers must be a top-down, intentional, organization-wide effort. Social media is an important tool in listening, promotion, and driving awareness. One video service claims that it can determine a promotional campaign's success within 48-hours of launch by monitoring social media. As this channel is often the frontline for fans' questions, comments, and everything in between, a company's social media team must be well-trained in brand voice, customer service, listening, and responding, which is new territory for many. These teams monitor viewer comments and should respond in minutes, if not seconds, to relevant posts and comments.

> Companies must be perceived as part of the community, rather than a huge organization. The voice has to be one of a friend, fan, or neighbor, with brands developing "personalities" that resonate with consumers

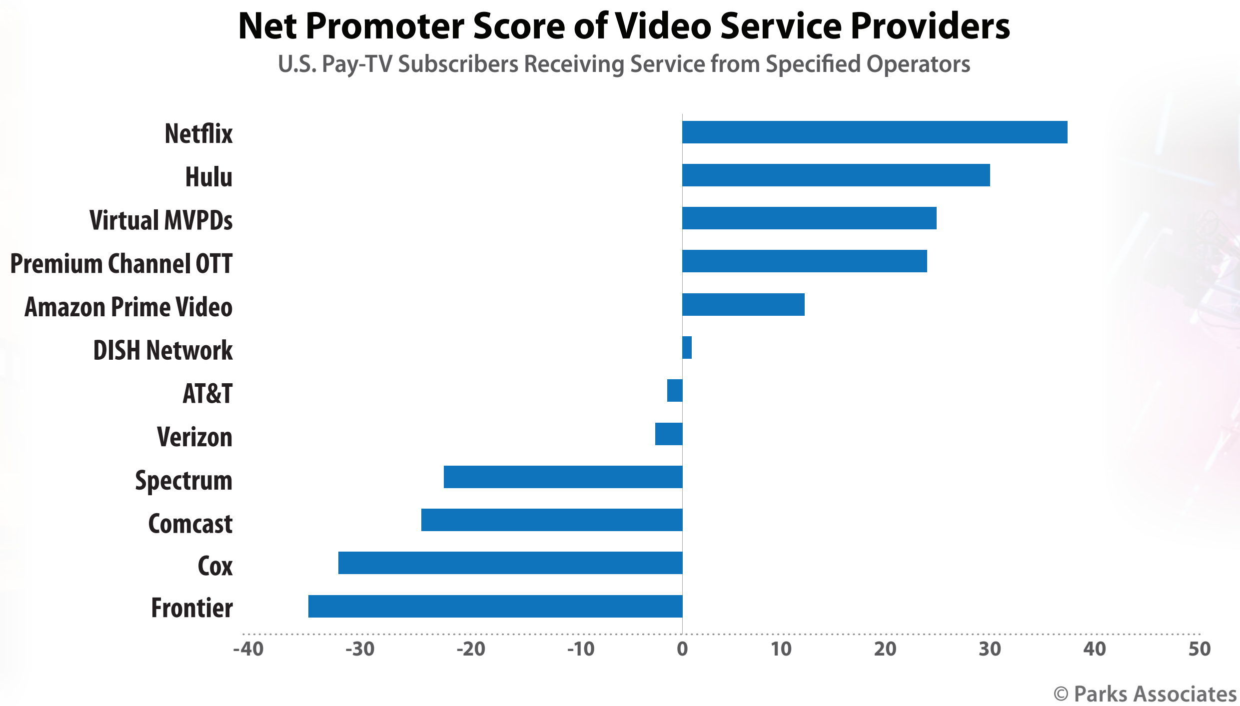
Brands must be on the devices where consumers most want a connection, including the 8.6 connected computing, entertainment, and mobile devices present (on average) in U.S. broadband households.

To do so, entertainment companies must remain aware of new connection points and devices, in case consumers want to connect. Companies must provide ample options for consumers to provide feedback at every turn, and the listening effort must be seen as having an impact. **Consumers will quickly abandon interaction if they feel that their feedback is having minimal or no effect.**

2. Reassess KPIs

When driving engagement with consumers, organizations must adopt new or additional performance indicators and tie those metrics to the evaluation of company or executive success. Many consumer-facing organizations use Net Promoter Score measurements to assess willingness of consumers to recommend the services to friends or family, which is particularly effective when compared to an industry benchmark.

Other KPIs, such as customer lifetime value, retention rate, or social shares, can examine the effectiveness in expanding engagement within and beyond a show or service's community.



With the dramatic convergence of digital and traditional distribution, granular measurements that can be tracked to the individual viewer, rather than the more general channel level, are increasingly important. This helps to eliminate duplicative data and gives a more precise and accurate view of real-world activity. For those selling or buying ad space across OTT and traditional TV, standardizing the measurement currency is a constant and heated debate.

3. Foster Viewer Communities

In addition to building company-to-viewer relationships, facilitating engagement among audiences is also valuable. Several motivations drive community interactions. Some viewers want to be perceived as experts. Others want to be sure that they are part of the social conversation, rather than being left out. Still others interact simply for enjoyment.

Avid fans like to express their opinions, emotions, and enthusiasm for their favorite shows, movies, and characters. In some cases, viewers seek to be creators and contributors themselves, producing fan art, derivative stories, self-made videos, and their own fan websites. Entertainment companies are creating spaces for consumers to express their views. Some provide social media comments to acknowledge and encourage fan creation efforts. Over time, consumer efforts and enthusiasm become self-sustaining as the community flourishes. When this organic growth occurs, it builds the value of the brand in a way that no advertising campaign can replicate.

4. Build Systems to Collect and Use Data Effectively

Many media and entertainment companies are starting from scratch when it comes to building out a technology stack to support their direct-to-consumer relationships. Those who have only recently begun this process are late to the game but have the advantage of learning from their peers. Importantly, companies must adopt systems that can scale with the growth of content, audience, delivery channels, business models, and operations, all of which produce massive data sets on a daily basis.

Many entertainment companies are investing in data collection and archiving systems to pool necessary data and machine learning tools to identify key trends and predict viewer interests and behavior. While large internet-era companies, such as Google, Facebook, and Amazon, commonly leverage data to fuel decisions, this type of data collection and analysis is new to most entertainment companies.

> To be effective in a new age of data-centric competition, entertainment players need to use data in a fundamentally different way than they have in the past.

5. Take a Holistic Approach to Consumer Connections

Consumers, particularly young consumers, perceive content and brands as a part of their connected world. Touchpoints must reach across platforms and be consistent, which is a challenge given the diversity of communication platforms and connected devices available. A holistic approach includes touchpoints like apps, reviews in the app and app store, social media, call centers, and YouTube channels (and posts and comments), as well as other potential areas where consumers may encounter content. The overall experience with your brand is important to consumers. When this experience appears disjointed, it affects the perception of authenticity and effectiveness as a result.

This is an area where data collection and use are particularly valuable. A technology stack, along with accompanying data, analytics, and strategies, allows brands to identify, reach, measure, and engage viewers across numerous touchpoints. For networks or other providers who reach their audience across both digital and traditional TV channels, a holistic approach is challenging but becoming a reality as the industry is hard at work to solve this on a larger scale.

6. Enable New Levels of Personalization

Thanks to Netflix and other large OTT video services, as well as connected consumer devices, users now expect the user experience to be personalized, particularly if they must subscribe or register to get access. To achieve differentiation, services must take personalization to the next level, leveraging consumers' desire to feel relevant.

Understanding user context, aspects of preferences, and habits beyond video consumption, allows companies to expand the scope and relevance of personal profiles. Within a video service or experience, this can result in greater addressability in advertising or recommendations of content. It also allows services to reach beyond the app or website.

For example, a company can advertise new seasons of a previously watched show on websites or apps that are not its own in order to foster retention or incent resubscription. Often, enabling context requires appending third-party data to a service's own data sets. It also requires companies to have the necessary technology in place to achieve this level of personalization.

Owning the Direct Consumer Relationship

Worldwide, hundreds of new direct-to-consumer services will emerge over the next year, including services from recognized brands such as Disney and WarnerMedia. Entertainment leaders clearly see that owning a direct relationship with consumers is immensely valuable for monetization, long-term (and short-term) survival, and as a competitive advantage. The connected world has re-defined these relationships, changing viewer expectations and enabling new types of engagement. As a result, the opportunities and roles within the industry have changed and are continuing to do so at a rapid pace.

Among market players, early fears of cannibalization by OTT video have given way to the reality that both traditional and OTT services will remain in the market long term. As such, the fear has shifted. Entertainment leaders now feel an urgency to establish a position in the OTT space while the opportunity remains ripe.

The result is a race for companies to get to market while business models and user habits are continuing to evolve. The fluid nature of the streaming services market speaks to the need for companies to know their viewers in a way and with a depth that they have not before needed in order to make the right decisions.

For those making content, understanding a fast-evolving customer will allow players to create highly desirable content sought after by audiences as well as the advertisers that want to reach them. It also allows entertainment companies to remain relevant at a time of ongoing change. Ultimately, the approach to consumers, systems, and data must evolve in order to allow the industry to evolve.

In an industry where perception is reality, understanding consumers and developing relationships with them will be the key in affecting perceptions in a way that grows your business.

The understanding will be driven by data, and putting the data to work will be critical in capitalizing on direct-to-consumer relationships.

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The nature of how customers consume video is changing. There are many open questions:

Will premium video be ad supported, subscription, sponsorship or some mixture of the three?

Will networks or MVPDs or OEM or internet companies win?

What is not in question is that there are multiple driving forces here.

1. Consumer viewership of premium video content is increasing.
2. Although OTT is small (relative to traditional linear TV), OTT will become the dominant distribution system. This has already happened in audio (starting with iTunes then Pandora and now with Spotify). This will happen with video – it is just a matter of when.
3. When OTT becomes dominant, content owners will have to become direct to consumer marketers (as well as content marketers) or they will become disintermediated by the direct to consumer marketers.

"The future of premium video is strong. But content owners need to adjust to a world where owning the consumer relationship, owning consumer data and owning the distribution channels is the new normal. The content owners that can succeed here while, at the same time, remaining producers of fantastic and beloved content will win. It's time for content owners to grow a strong direct to consumer capability."

Andy Fisher
Chief Analytics Officer
Merkle

About Merkle

Merkle helps media and entertainment companies such as Sony, AT&T and others develop, manage and capitalize on viewer relationships. Merkle is a leading data-driven, technology-enabled, global performance marketing agency that specializes in the delivery of unique, personalized customer experiences across platforms and devices. For more than 30 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. The agency's heritage in data, technology, and analytics forms the foundation for its unmatched skills in understanding consumer insights that drive people-based marketing strategies. Its combined strengths in performance media, customer experience, customer relationship management, loyalty, and enterprise marketing technology drive improved marketing results and competitive advantage. With 5,700 employees, Merkle is headquartered in Columbia, Maryland, with 24 additional offices in the US and 26 offices in Europe and APAC. In 2016, the agency joined the Dentsu Aegis Network. For more information, contact Merkle at **1-877-9-Merkle** or visit **www.merkleinc.com**.

Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services.

Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

The company's expertise includes the Internet of Things (IoT), digital media and platforms, entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, support services, consumer apps, advanced advertising, consumer electronics, energy management, and home control systems and security.

For more information, visit **parksassociates.com** or contact us at **972.490.1113** / **info@parksassociates.com**

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As a senior director of research at Parks Associates, Brett Sappington leads Parks Associates services research team, including access and entertainment services, digital media, OTT, cloud media, video gaming, and technical support services. Brett is an expert in worldwide television and broadband services. His personal research focuses on the activities and trends among operators and the market forces affecting their businesses.

Brett has spent over 18 years in the industry as an analyst, executive manager, and entrepreneur. Brett holds an MBA from the University of Texas at Austin with a concentration in high-tech marketing and a BA in physics from Baylor University.

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