

Developing and Monetizing an OTT/CTV Offering



Developing and Monetizing an OTV/CTV Offering

The State of OTT/CTV

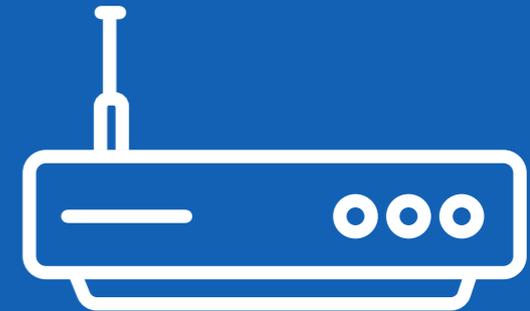


Streaming programming has produced a veritable alphabet soup of acronyms.

Let's sort out the key terms and what they mean to you as a programmer.

Difference between OTT and CTV

While the terms often are used interchangeably, distinctions should be drawn



Over-the-Top (OTT)

OTT video comes directly over the internet to a television via a set-top box, internet-capable television, or other device. OTT content is not dependent on a cable or satellite subscription, though can exist alongside or on top of it, hence the name.

Connected TV (CTV)

A connected TV (CTV), also known as a smart TV, is a television with the capability to receive content over the internet. CTV is a device-centric term, and in fact much OTT content is delivered directly to CTVs without the use of a set-top device.

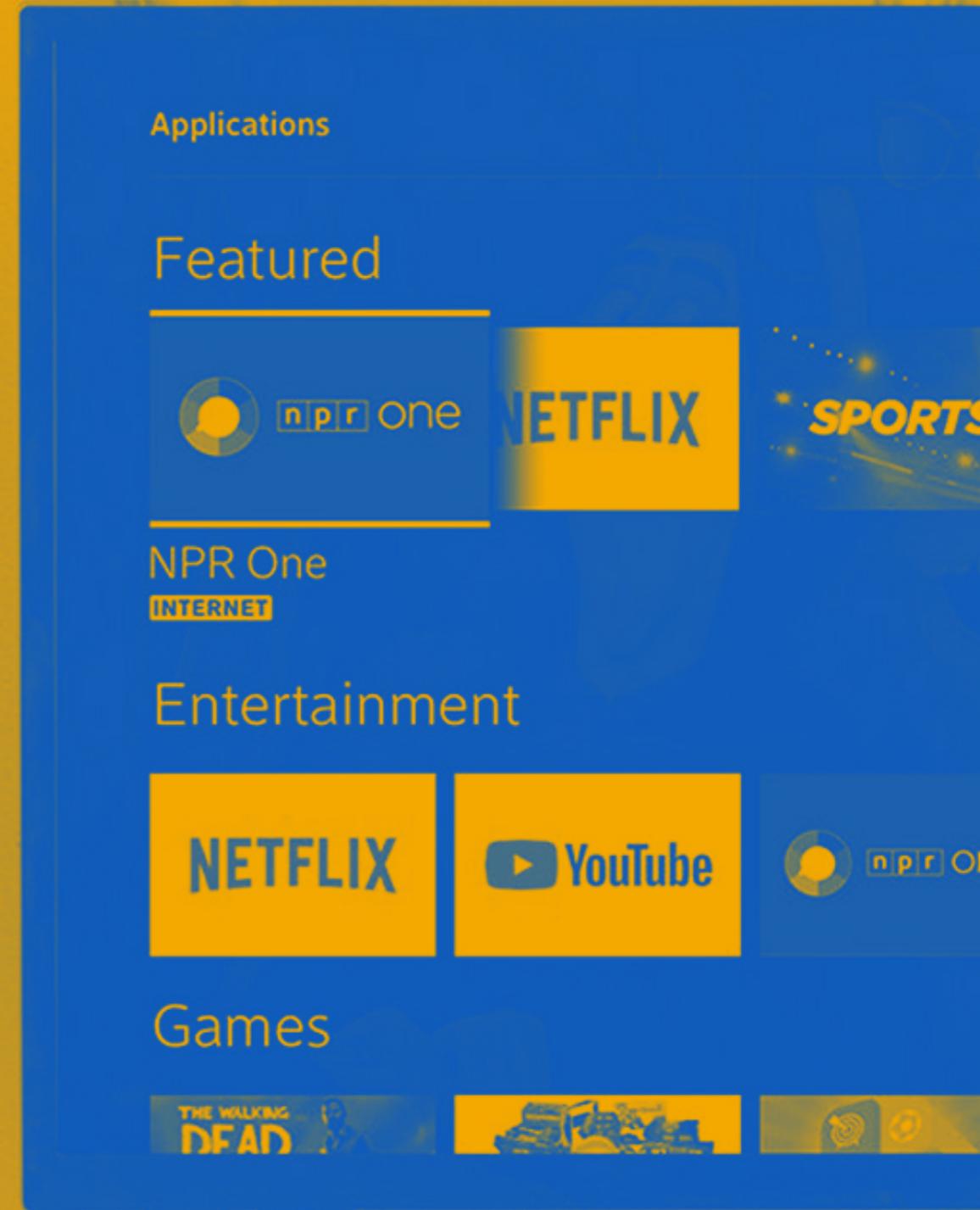
TV Everywhere (TVE)

Standing alongside OTT and CTV is yet another three-letter acronym: TVE or TV Everywhere. It is initiative created by cable television networks and cable operators to allow subscribers to access content on various devices by logging in. Since it relies on a cable subscription it is not considered OTT and will not be explored in this deck.

OTT on TV

OTT content is available on many types of devices, including smart phones, tablets, and even some smart home or Internet of Things (IoT) devices.

However, for the purposes of this point of view, we'll be looking at OTT video delivered to televisions via set-top box or through the capabilities of smart TVs.

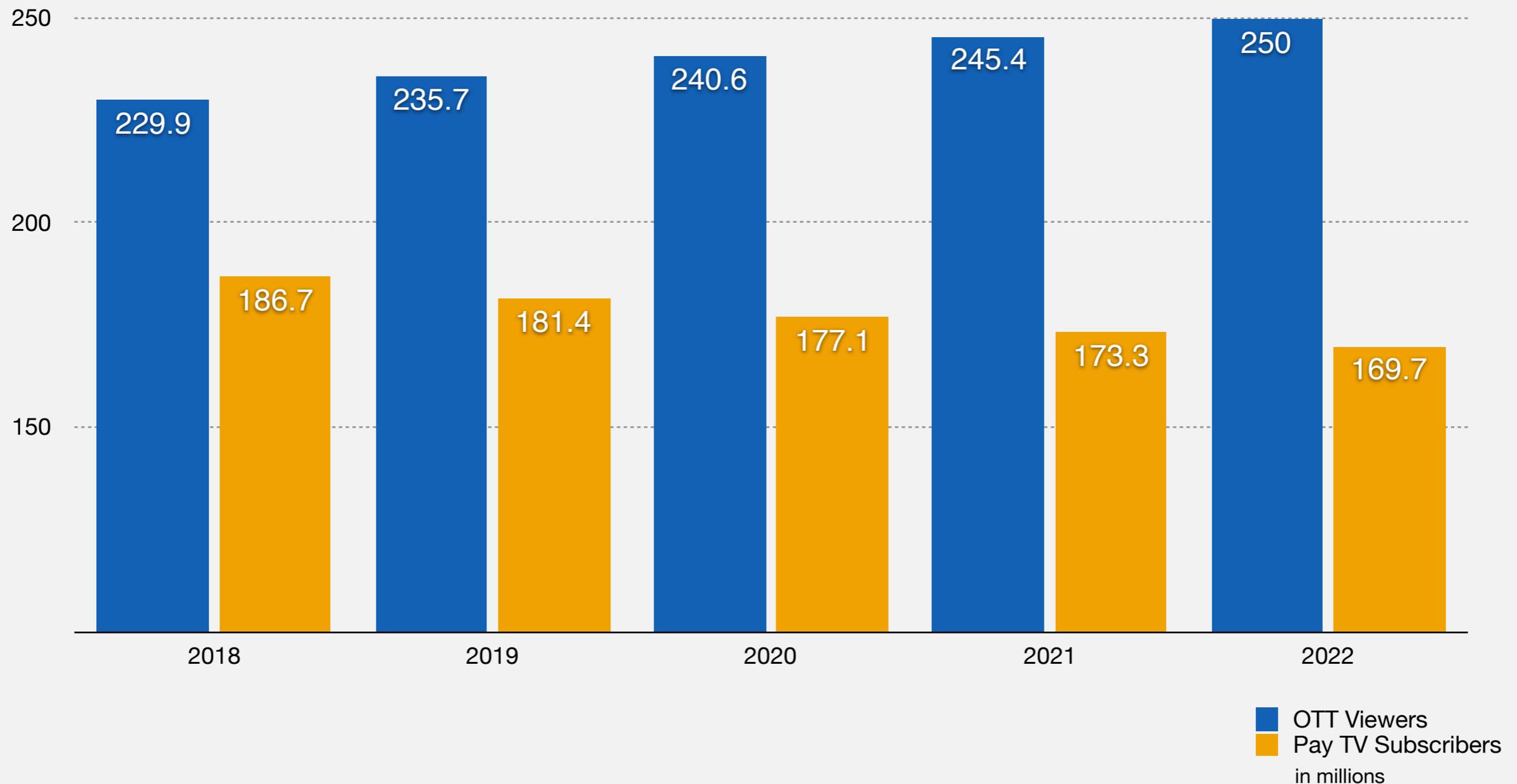


The State of OTT/CTV

Audience Trends for OTT/ CTV

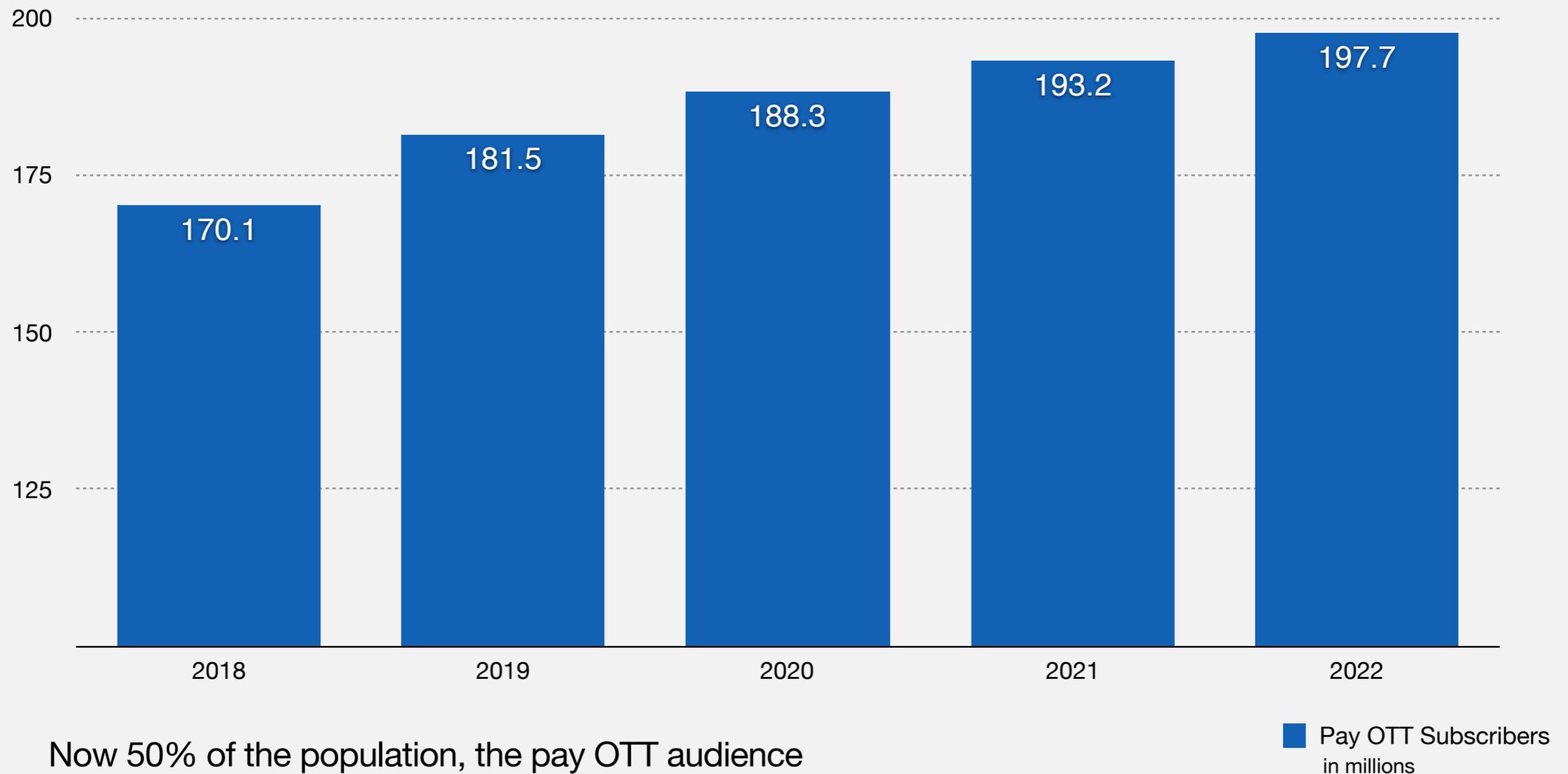
OTT grows while pay TV shrinks

15 to 20 million people will join the ranks of OTT viewers by 2022, while pay TV sheds nearly as many



Viewers more willing to pay for OTT

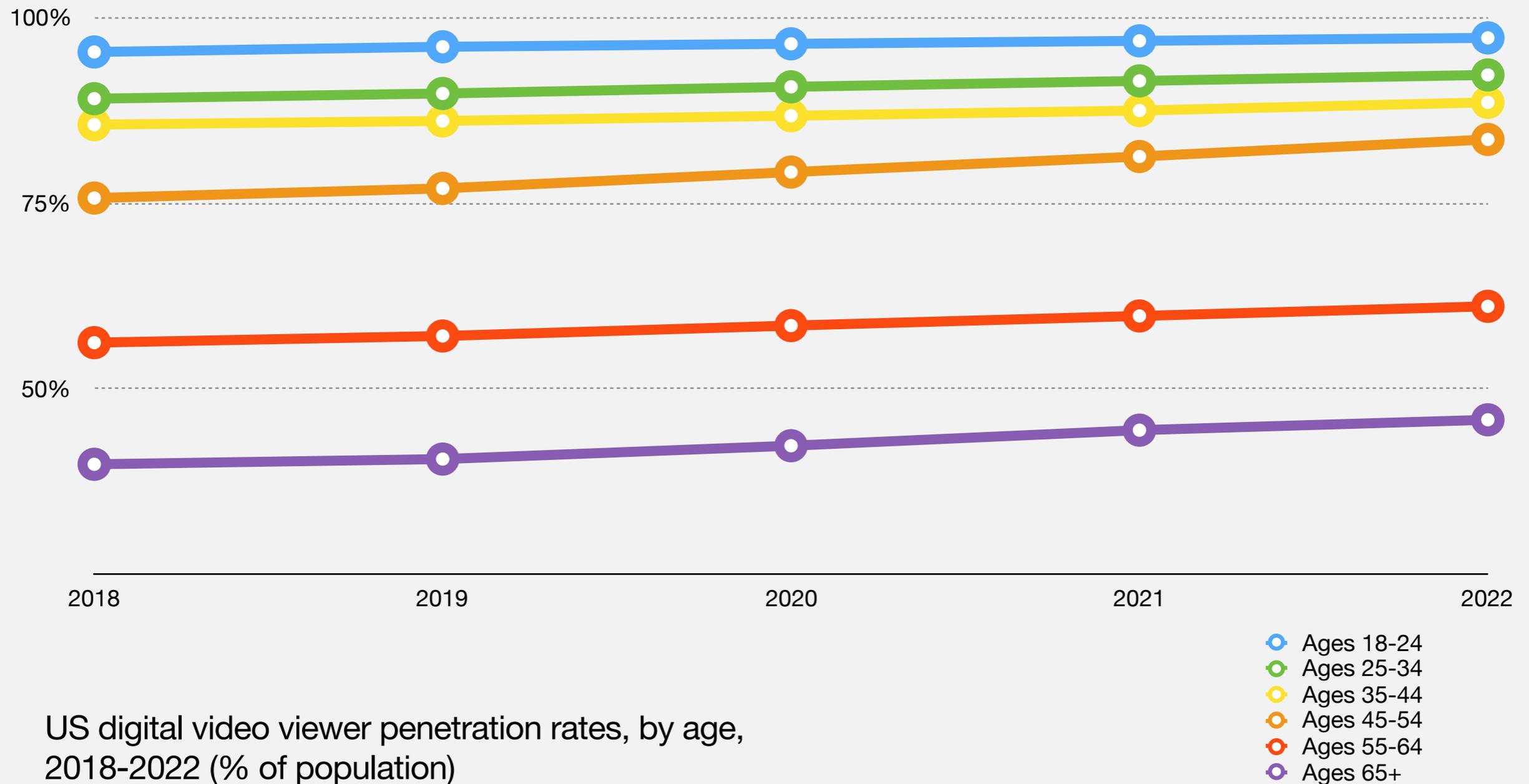
Even as traditional pay TV audiences shrink, the growth in paid OTT content, both on-demand like Netflix and linear like Sling TV, is notable



Now 50% of the population, the pay OTT audience will grow to 58% by 2022.

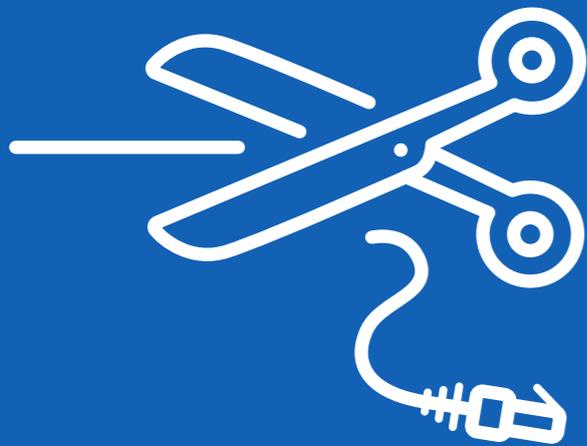
Digital video viewers younger

It's probably no surprise that younger viewers favor digital video, including OTT, but the percentages are significant



Other audience stats of note

These trends provide a sharp picture of the fast-evolving OTT/CTV landscape



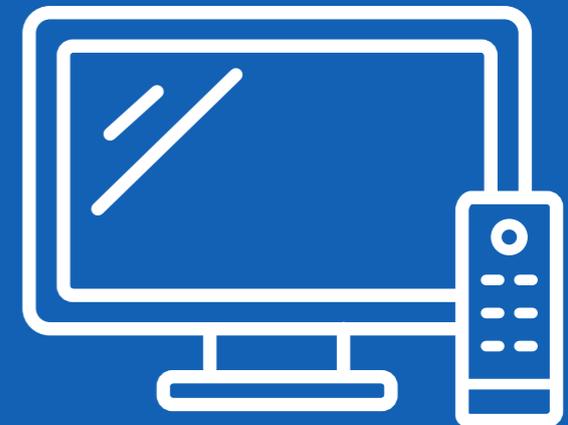
Going Cordless

So called cord-cutters, those dropping pay TV are growing much faster than cord-nevers, those who never subscribed, indicating a conscious choice to get rid of traditional pay TV services, often in favor of OTT services.



Platforms of Choice

YouTube's ad-supported service draws the most OTT viewers, followed by paid Netflix, Amazon Prime Video, Hulu, and HBO. Sling TV has the most subscribers of the paid linear streamers, but with only 5% of Netflix's audience.



Which Device?

Smart TVs themselves are the most used OTT device, followed by game consoles, Roku, Amazon's Fire TV devices, Google's Chromecast, and Apple TV.

Why OTT?

What's driving all these viewers to OTT services? In a word: choice.

Consumers long ago cooled on the idea of paying for a bundle of 500 cable channels, the vast majority of which they never watched. OTT services put the user in control of what he or she wants to watch, when, and in many cases, at what cost.

However, there is a strong risk that the proliferation of OTT choices may drive consumers back to the simplicity of a bundle, and OTT programmers and hardware makers are exploring options that might look very similar to the old-fashioned cable bundle.

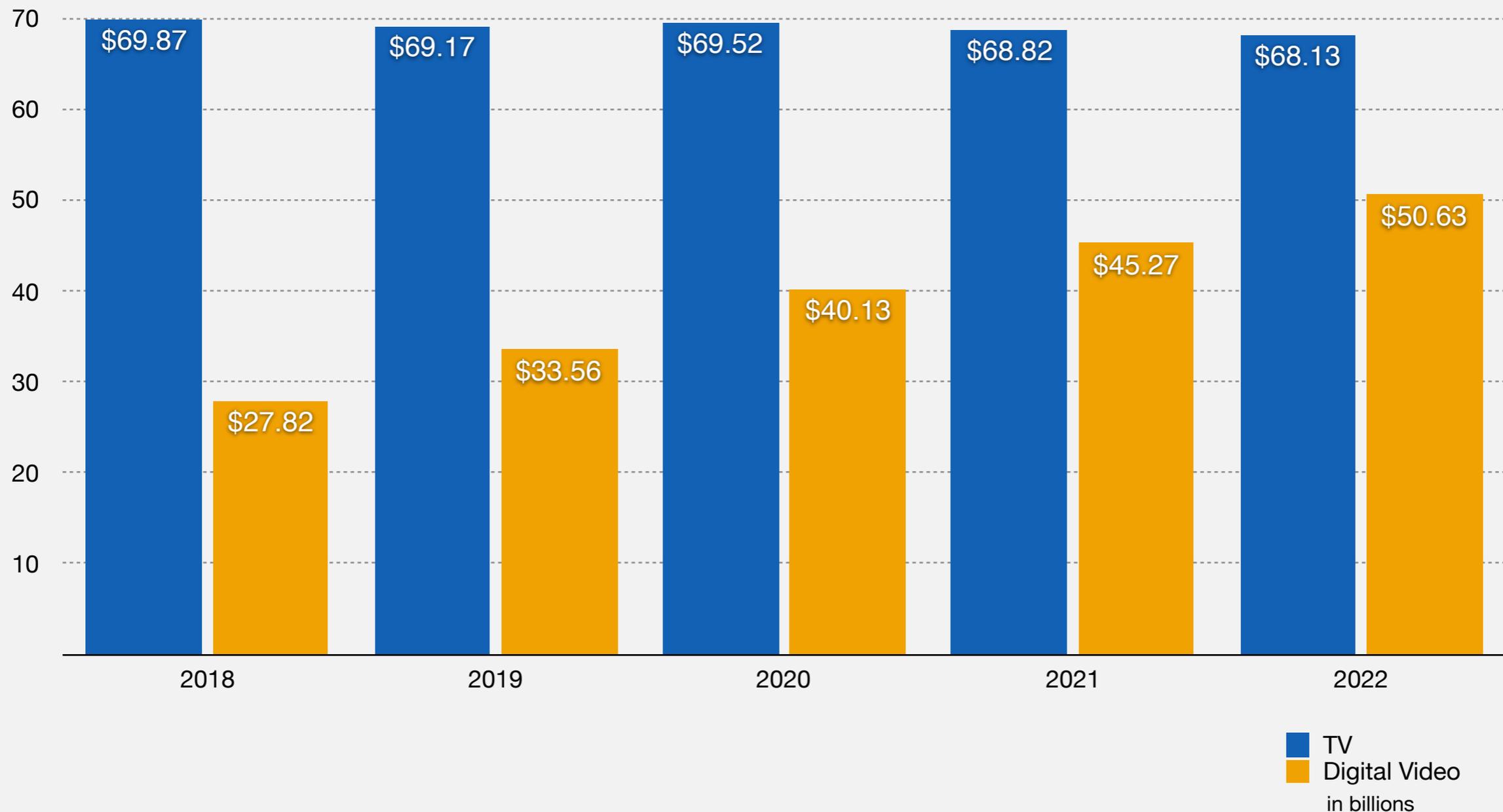


The State of OTT/CTV

Advertising Trends for OTT/ CTV

Digital video ad spending on the rise

Double-digit growth continues through 2022, while TV ad spending declines slightly



Interest in news

When polled on where they want to spend on digital video, a third of advertisers say they want to increase expenditures on news, with another 59% saying they will maintain their current budget levels.



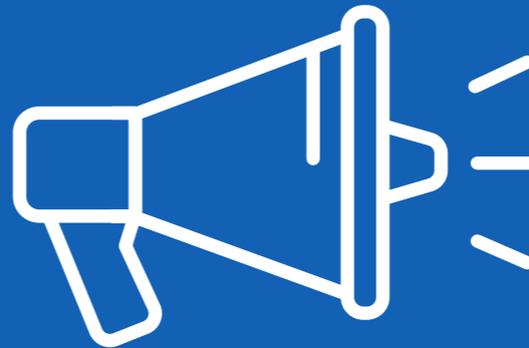
More alphabet soup on VOD menu

OTT Video on Demand (VOD) comes in multiple flavors from various providers



SVOD

Subscription VOD, or SVOD, is similar to cable TV in that you are paying a monthly fee for a broad video service but with many programs instead of many channels. Netflix rules this roost, with other players like Amazon and Hulu, as well as direct-to-consumer channels like HBO and CBS All-Access. Disney, WarnerMedia, Apple, and possibly NBCUniversal, all will have their own SVOD offerings by the end of 2019.



AVOD

Advertising-supported VOD, or AVOD, mostly is centered on the device companies, like Roku, and digital natives like YouTube. However, Hulu offers a hybrid SVOD/AVOD tier at a lower price point than ad-free, and big media is building or buying AVOD startups like Pluto TV (Viacom) and Amazon's Free Dive.



TVOD

The third flavor is Transactional VOD, or TVOD. Think Apple's iTunes or your cable company's premium video on demand service. While still part of the OTT ecosystem, this economic method is not as relevant to this point of view and will not be covered extensively.

OTT advertising

Among the three business models, AVOD looks ready to explode.

According to research firm Magna Global, OTT ad spendings will hit \$2 billion this year, an increase of more than 40% over 2018.

The growth is driven by a surge of ad inventory across a variety of outlets. Since programmers and device makers both can provide advertising inventory, there is plenty of room for further growth.



Play Next



Sponsored



Netflix
Recommends for ...



Recommended



Not just more ads, but better ads

Research shows that ads on connected TVs perform better than those on other platforms in key areas

1

According to Extreme Reach, a digital ad platform company, CTV ads generated the highest percentage of impressions in the middle two quarters of 2018, beating out video ads on mobile, desktop and tablet.

2

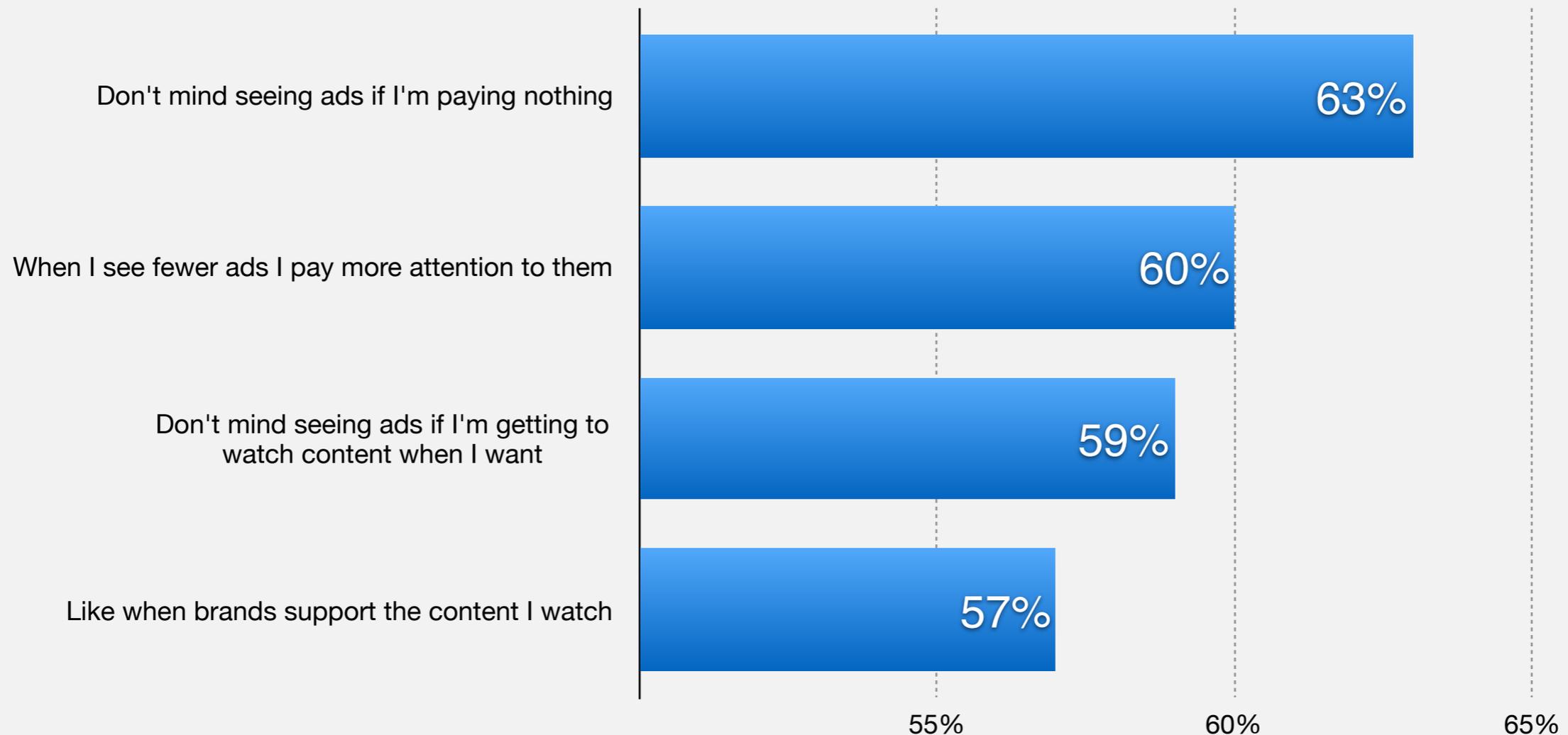
Not only are more people watching on CTVs, but they watch for longer. The average video completion rate in 3Q18 was 95%, ten points higher than the nearest platform and 13 points higher than average. This is attributed, in part, to the lack of ability to skip ads on CTV platforms.

3

Perhaps most surprising, longer ads are favored on CTVs, with 30-second spots comprising 55% of all impressions in 3Q18, compared to six- and 15-second alternatives elsewhere. With other OTT platforms such as YouTube are moving to shorter ads, this affinity for longer spots may prove very valuable for the CTV platform.

Video ad viewers' attitudes changing

Viewers of ad-supported content are showing greater receptiveness to advertising that brings them the content they want



“For a lot of content, people like the big screen. They like to be in the living room. There’s a lot of opportunities ahead in smart TVs.”

Steve Loudon

CEO, Roku, as reported by Cheddar, May 9, 2019

ROKU[®]

Leveraging Content for OTT/CTV

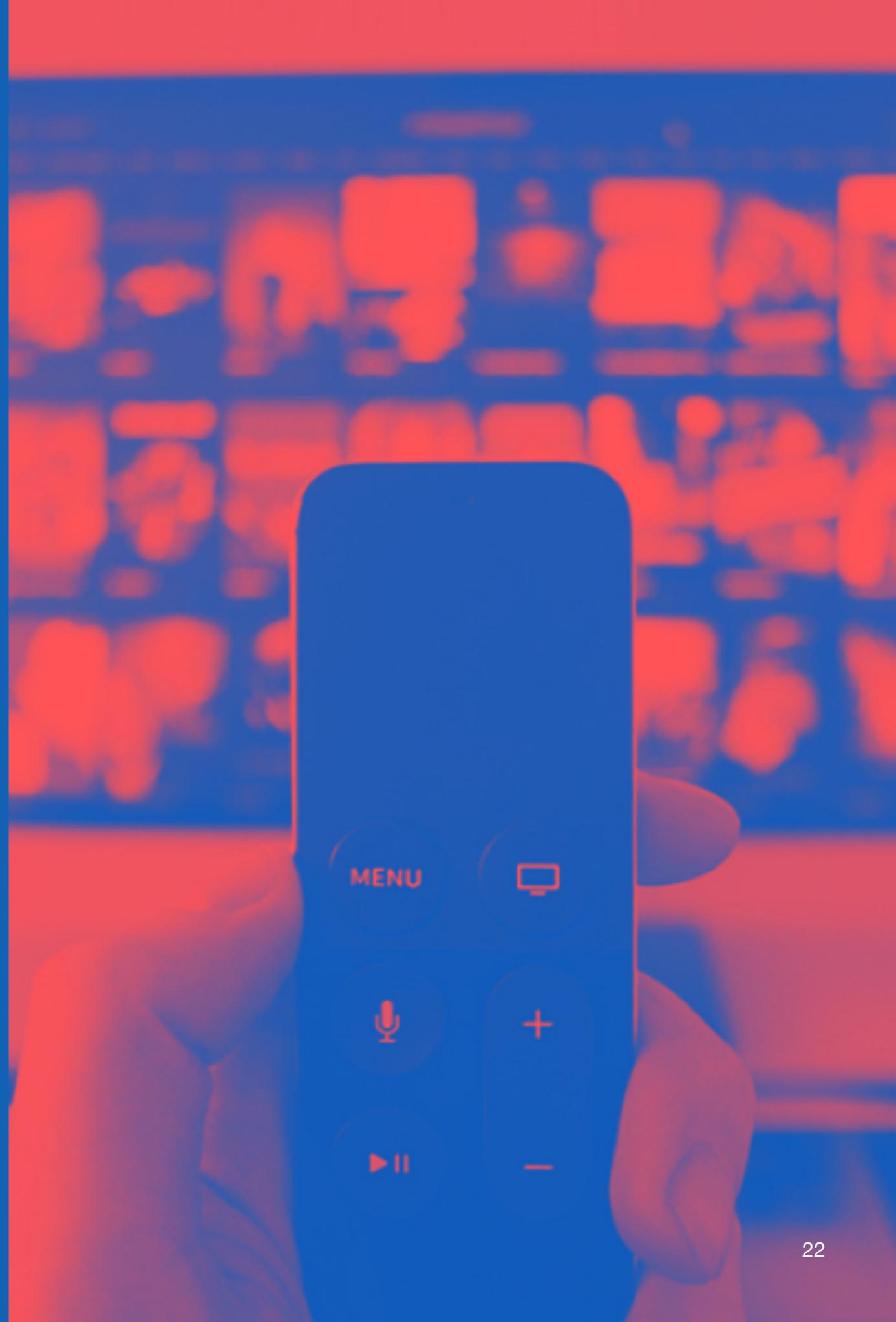


When producing content for OTT, there are many sources upon which to draw to satisfy the needs of a diverse audience.

The Right Content Fit

When programming for OTT/CTV, you are satisfying the audience's need for content that they are choosing not to get from your linear broadcast, but also choosing not to watch on an alternative device such as a phone or tablet. This means it has to fit the viewing medium of television and be something they want to watch.

It's also important to cast a wide net for sources of content, both that being produced by your organization and other relevant content from external producers that is meaningful to your audience.



Producing content internally

Think about extensions to your existing content, as well as alternatives



Extended TV Programming

Let viewers continue to stay engaged with programming you offer based on their level of interest. Some types of extended programming would be:

- News conferences, both live and on demand
- Live coverage of ongoing events outside newscast hours
- Weather cams and radar
- Traffic cameras

Alternate Programming

This would consist of content not directly tied to ongoing programming, but with a high level of interest based on content or form. Examples include:

- Documentaries and long-form programming from archives
- 4K content not available through standard means
- Audio content such as podcasts or radio-style headlines
- Sports, such as high school football games, interviews, etc.
- Religious programming

WRAL: A Vast OTT Library

Capitol Broadcasting's Raleigh station provides a wide variety of OTT programming to Roku, Amazon Fire TV, Android TV, and Apple TV. Among the many offerings are on-demand newscasts, locally produced documentaries and shows such as "Tar Heel Traveler", many of which are available in 4K, as well as audio content.



CBS Boston: Race Day Resource

The Boston Marathon draws huge interest and CBS Boston/WBZ used its OTT programming to stream extensive live coverage of the event, supplementing its on-air programming.



AT&T	ROMANCHUK 1:21:36 MEN'S WHEEL	SCHAR 1:34:19 WOMEN'S WHEEL	DEGEFA 2:23:31 WOMEN	CHERONO 2:07:57 MEN	BOSTON MARATHON 2019	@WBZmarathon
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Adding external content

OTT also offers the opportunity to secure valuable external content to offer to your audience, supplementing what you produce. Here are some prime examples:



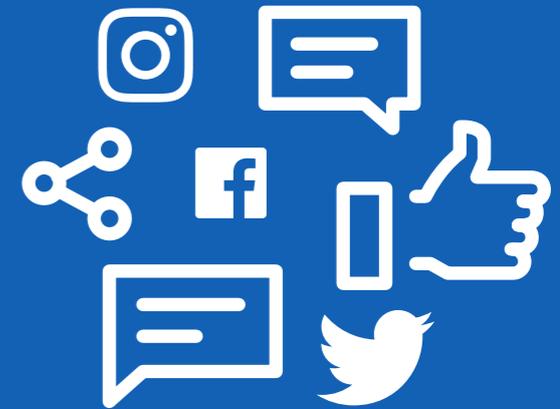
Local partnerships

Video or other content rights holders may want access to the large audience that you can offer. This can lead to a valuable partnership. Local sports teams are a prime target to explore for this kind of content, along with local events, institutions, and other non-competitive content publishers.



Strategic partnerships

Some content exists for the sole purpose of being offered to local stations to augment programming. A prime example of this is CNN's Video Affiliate Network (VAN). Some, like VAN, also can provide revenue along with the programming.

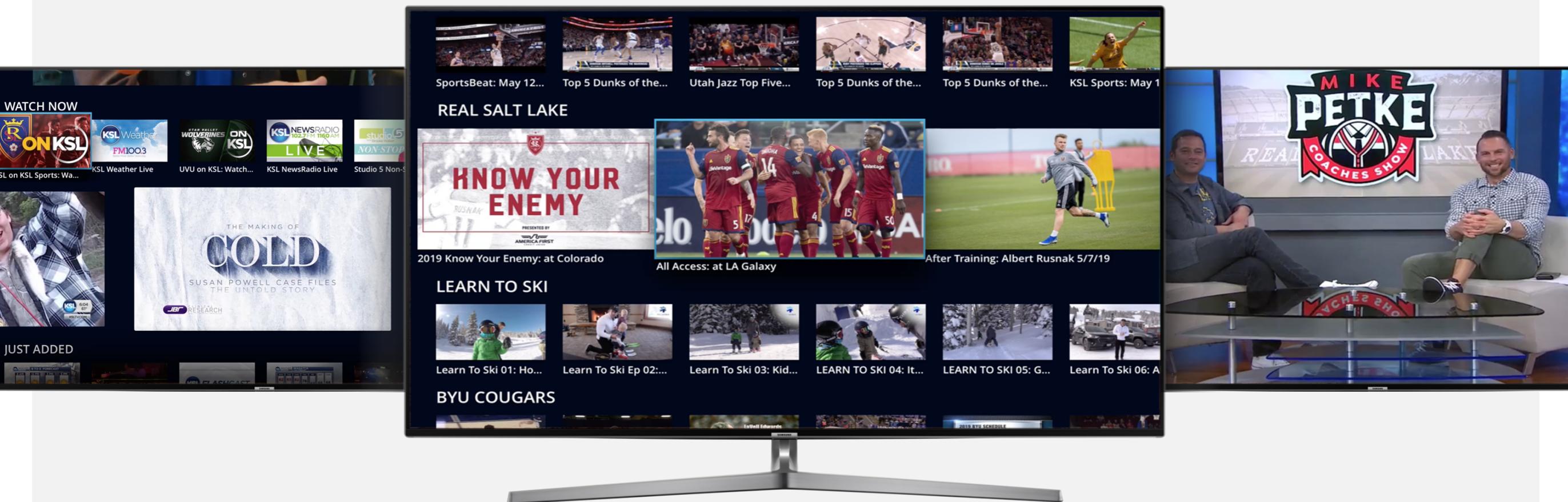


Social programming

Increasingly, social platforms are an abundant source of video programming. Look to integrate your own video from social networks into your OTT offering, as well as possibly partnering with local influencers to offer alternate distribution for the content they are producing. This is especially important to appeal to younger OTT audiences.

KSL-TV: Major League Partnership

In 2018, the Salt Lake City NBC affiliate struck a deal with local Major League Soccer team Real Salt Lake to stream matches OTT to local viewers, both live and on demand. Match streams were drawing 30,000 to 50,000 viewers, as many as those attending in person.



The Next Wave?

As stations owners and other programmers experiment with various forms of OTT content, one may be charting the path to follow.

Sinclair Broadcast Group has launched a new streaming platform called STIRR. It combines local content with syndicated offerings in a free service supported by advertising and available on a variety of OTT platforms as well as the web.



Anatomy of STIRR



Content sources:

- Local content, live and on demand
- Content aggregated from across Sinclair's 190+ stations and curated by STIRR staff
- Syndicated digital channels to populate content verticals such as Cheddar (news), Stadium (sports), Buzzr (game shows), and Comet (sci-fi).

Business model:

- Free to consumers on all platforms
- Ad-supported, with Sinclair selling 100% of advertising and sharing revenue with other content providers

“With STIRR, we offer audiences an easy, convenient and free way to watch live local and national channels, as well as access a deep selection of on-demand programming.”

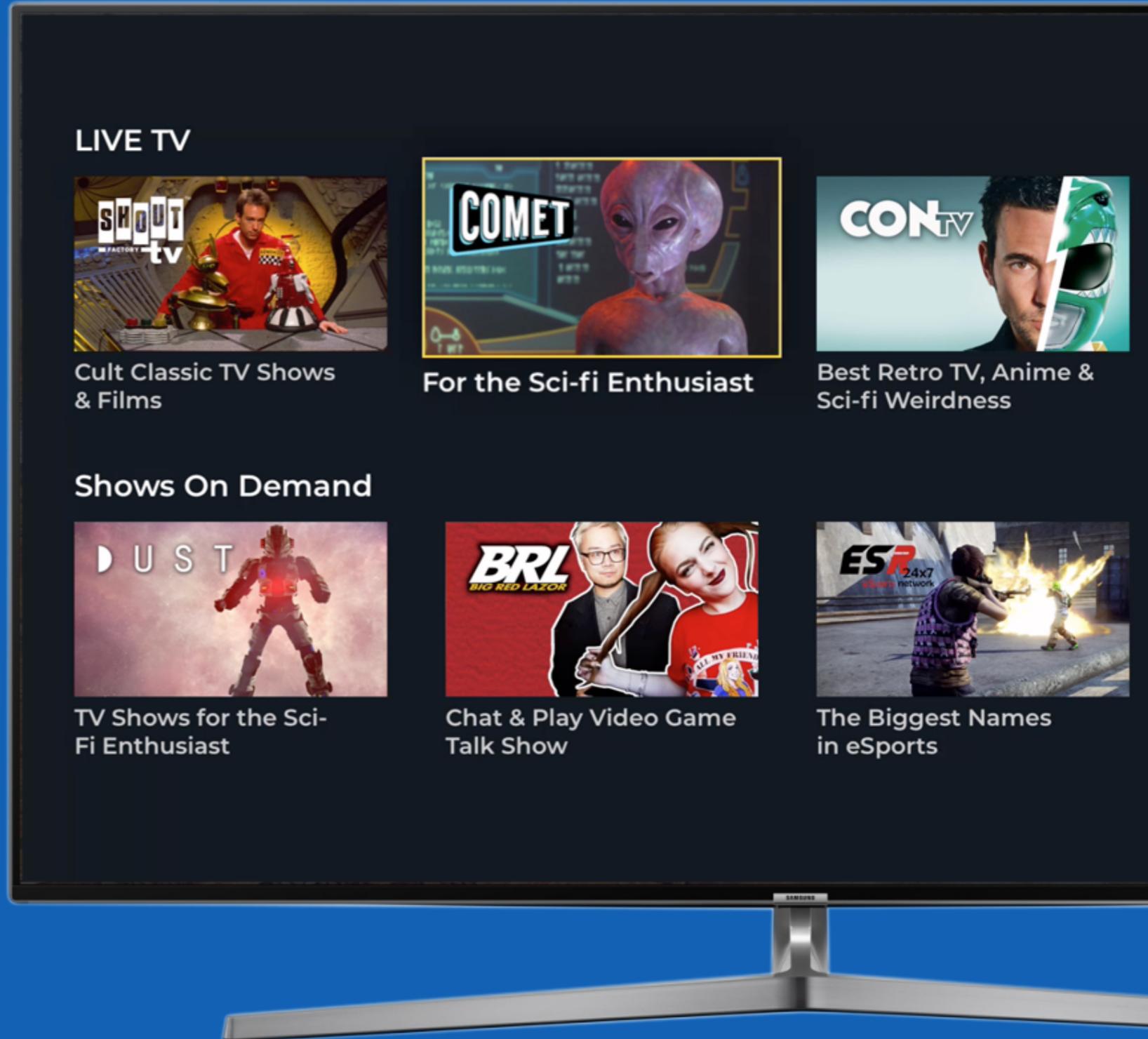
Christopher Ripley
CEO, Sinclair Broadcast Group

SINCLAIR
BROADCAST GROUP

Not a news service

While many broadcasters think of news first when it comes to OTT programming, Sinclair is quick to point out that STIRR is not a news service.

Says Scott Ehrlich, Sinclair's VP of Emerging Platform Content, "If you look at STIRR's perspective, news is a very small percentage of it. The only 24-hour news channel we have is Cheddar."



Other things to consider

Keep these other factors in mind as you create your content plan for OTT



1

Secure the rights

For any content you make available over OTT, be sure that you have secured the rights for that platform. This includes your retransmission agreement with local cable and satellite channels and any other third-party distributors.



2

Identify the staff

Much of what is described in this point of view can be done with existing content and processes. But perhaps not all. Make sure that you take into account staffing consideration when planning any new OTT content. It's possible that the revenue may justify adding staff, but work from a plan to keep risk to a minimum.

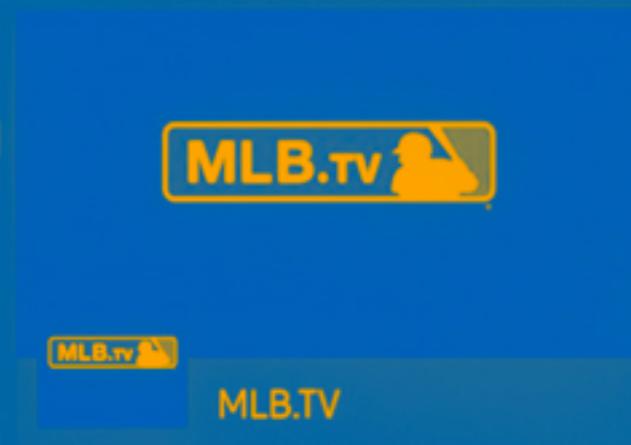
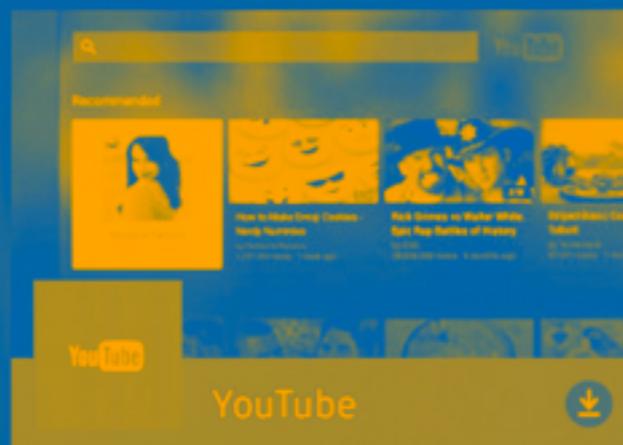


3

Have a plan

It's not enough to throw things on an OTT stream just because you can. Think about how cultivating an audience for a certain type of content supports and advances your brand. Thinking about what you want to achieve with your OTT programming will help you prioritize, budget, and build the best possible service.

Monetizing your OTT/CTV Offering



It's not enough just to offer content over OTT, you want to find the best way to monetize it, and that may be primarily through advertising.

Following are trends and best practices concerning advertising and other revenue sources for OTT/CTV.

OTT video > digital video

Advertisers are attracted to OTT video due to its presence on a television and the television audience, positioning it closer to cable TV in value compared with digital video online. Other factors to consider:



1

83% of monetizable OTT programming is viewed on YouTube and Hulu while only 5% is spent with high-quality publishers such as TV broadcasters. While relatively small now, publishers' market share has room to grow with more and better program offerings.



2

Direct-sale CPMs for broadcaster OTT content is in the \$20-\$30 range, similar to linear TV. Programmatic prices are lower, hovering in the mid-teens, but many programmers settle for the discount due to lack of dedicated sales teams committed to OTT.



3

Addressable OTT advertising, ads targeted to individuals/homes instead of just being associated with content, will drive CPMs much higher, but will require an even greater commitment to an investment in OTT programming, technology, and analytics.

The OTT ad boom

OTT ad revenue is growing at an astonishing rate. Digital ad market maker AppNexus reported a 700% increase in 2Q18 compared to the same quarter the previous year, and 70% growth from 1Q18.

Research firm Magna Global estimates OTT ad spending to hit \$2 billion this year, and points to shifts in media buying patterns that will continue to drive the trend.



What's driving the increase?

Three primary factors are driving the increase in OTT advertising

1

Subscriber surge. The so-called “skinny bundles” offered by Sling TV and others include broadcast and cable channels and their full complement of 16 minutes of advertising per hour. This expansion of ad inventory provides a large target of opportunity for OTT advertisers.

2

Digital-style targeting. OTT homes offer the unique mix of streaming technology with rich customer profiles, positioning OTT for addressable advertising, where the ads are tied to the home or viewer rather than just the program.

3

Lighter loads. Almost counterintuitively, the shorter time given over to ads on services such as Roku and Hulu, generally eight minutes per hour compared to 16 for traditional linear programming, is seen as more attractive for viewers and puts a bigger spotlight on each ad, making it more valuable.

Crowded sales marketplace

Unlike traditional television, programmers are not the only seller of advertising, leaving content companies competing for inventory to sell. Linear providers, such as Sling TV, and set-top box and TV hardware makers all are competing with programmers to sell a scarce inventory.



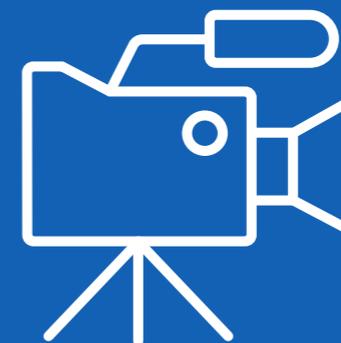
Distributors



Set-top box



TV hardware makers



Programmers

Other complicating factors

OTT advertising is still in its infancy. Expect many bumps along the road to large-scale monetization



1

Bad data. Lack of uniform measurement was cited as the number one issue holding back ad spending on a variety of next generation TV products, including OTT.



2

Fragmented inventory. Advertisers and agencies are finding it hard to construct media plans for effective buys across all the potential sellers and platforms mentioned earlier. Interested parties are working to simplify the process but much remains to be done to get it anywhere close to traditional media buying in terms of ease of use and reportable results.



3

Ad frequency. A combination of scarce creative and rudimentary targeting has led to repetition of ads, with viewers often seeing the same ad three or four times during a program. This problem should work itself out as more creative emerges and targeting improves.

Pain before gain

All this data points to an OTT ad sales opportunity that starts slowly, but gains value as it grows.

To work through the slow times and keep your eyes on the prize, here are some methods to consider when setting up an OTT ad business.



Use SOV to balance CPM

At first, it may be hard to earn a good CPM considering the potentially small audiences when starting up a new OTT service. One alternative method to value advertising is Share of Voice (SOV).

Share of Voice is a method used in online advertising to calculate the value of an offering when traditional metrics don't exist or aren't adequate to capture the value. It seeks to estimate how much of a market you own compared to the overall market. SOV allows for any of several different metrics to be used to calculate share. A good description of it can be found here: <https://sproutsocial.com/glossary/share-of-voice>.

SOV can be a method that allows an advertiser familiar with your other products to “get in on the ground floor” when it comes to new OTT programming. Much in the way sponsorships work, the value comes from association with your content, but with the added benefit of the share of voice metric(s) as a validator.

Find the right advertising and sales mix

Rather than commit to one revenue model for all your OTT services, consider mixing multiple models to test effectiveness and ease of implementation.

1 CPM vs. CPP

A CPM model may work better for your VOD offerings such as documentaries, newscasts on demand, and short content. Users and views can be aggregated over time to produce the metrics needed to generate favorable rates. For live offerings, where audiences may be small, consider a cost-per-(rating) point (CPP) method, where you measure your OTT viewers using live TV's rating points system. By utilizing this method, you effectively roll your live OTT viewers up with your standard television viewers, allowing OTT to monetize its proportionate share of the total live audience.

2 Programmatic vs. Direct Sales

Given that you have a sales organization that already is selling your core products, your first inclination may be to commit all your OTT inventory to direct sales. However, programmatic selling, even at a lower CPM, may be the best way to go at first since it will guarantee that your inventory will sell out—something you may not be able to do via direct sales early on. Just be sure to review the mix between direct and programmatic as your programming and audience evolve, and adjust it as needed to maximize your revenue.

Find the right advertising and sales mix

3 Ad and Subscription Mix

While this point of view has been focused exclusively on ad-supported content, it may be worth considering a hybrid approach of subscription OTT content supplemented by some advertising. Certain types of content, such as the sports programming mentioned earlier, is well suited for subscribers. Look for content that people are willing to pay for directly, possibly even in a bundle across various verticals (high school sports plus 4K video plus local short films?) and create a subscription product to test. Remember that you also may be able to squeeze some advertising into a subscription product if you keep the price point low and the ads infrequent or otherwise unobtrusive.

4 Separating CTV advertising from other digital

An approach taken by some publishers is to separate OTT ad inventory that goes to a connected TVs as higher value than that that reaches consumer through other devices such as smart phones. KSL Salt Lake City calls their OTT ads that appear only on connected TVs "Pure CTV", and sells them at a higher rate. The idea is that the CTV viewer is passive and gives more attention to the ad and that produces the higher value.

“Buying OTT is like buying a can of mixed nuts or a bottle of blended scotch whiskey. The blend is cheaper because it mixes premium and cheaper ingredients together. Buying Connected TV is like buying just a can of cashews or a single malt whiskey. It’s more expensive than the blended products.”

Jon Accarino

Executive Director, Business Development, Bonneville Salt Lake (KSL),
interviewed by the Local Media Innovation Alliance



Find the right advertising and sales mix

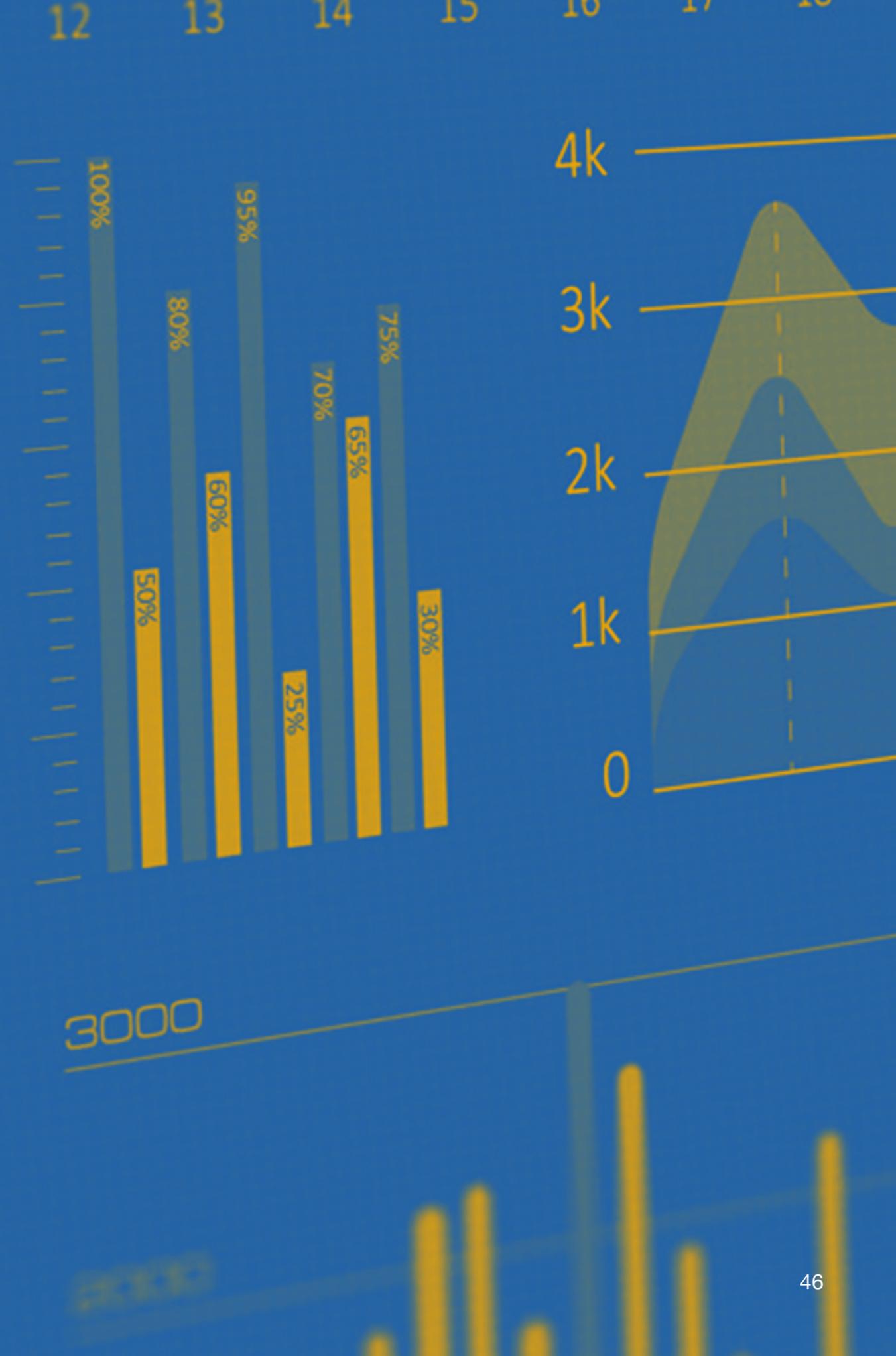
5 Native Advertising as it own OTT channel

One other vehicle to consider is native advertising in the form of content produced specifically for an advertiser. Short- and long-form native video ads are ideally suited for OTT delivery to a TV, and the multi-channel nature of OTT programming allows for the creation of a channel dedicated to advertising or even to just one advertiser. This approach can be particularly appealing because you can generate revenue both producing and distributing the native content. Just be sure to label it as advertising in whatever form it takes so as not to taint your news or other editorial programming on OTT.

Measuring value

As you determine your OTT business model, remember to keep advertisers in the loop. Transparency is key to helping OTT monetization expand, and advertisers often are confused by the mix of TV, web, and OTT metrics that are being used to justify cost.

KSL Salt Lake City utilizes a common dashboard to show advertisers where their ads ran and on which platform, emphasizing the difference and value while promoting transparency. WNEP Scranton employs something similar provided by Nielsen. Make sure to convey your metrics in such a way as to support your pricing structure.



Developing and Monetizing an OTV/CTV Offering

Summary



What We've Learned

The emerging lessons of OTT/CTV are becoming clearer each day



1

Change is Here

The audience is shifting towards vastly more OTT/CTV viewing, even if the business and technology models are not firmly established.



2

Bundle Diet

Viewers are moving away from paid “fat bundles” represented by the traditional cable model and towards “skinny bundles” of just a few channels supplemented by on-demand programming that they choose. OTT benefits enormously from this trend.



3

Local Opportunity

Local content is largely a missing element right now, though programmers like Sinclair and hardware companies like Roku are trying to fill that gap. Still, there is room for publishers in every local market to grab their shares of the OTT audience and revenue pies.

What to Do

As you move toward beginning or expanding your OTT offering, keep these considerations in mind



1

Un-Matched Game

One size probably does not fit all. Don't think of your audience as a monolith. Instead, think about how each unique piece of content you produce can use OTT to find its discrete audience.



2

Content Leads the Way

Create your content plan first, then figure out how to monetize it. As we have seen in this point of view, there are many possible ways to generate revenue with OTT content. Some methods will work better with certain content. Match the best revenue model to the right content and be willing to adapt once you learn what works.



3

Knowledge is Power

Learning what works is key to establishing and growing a strong OTT presence. Work with Google, Nielsen, and other measurement firms to gather and analyze your OTT performance data, then make adjustments to your programming and revenue models to keep moving forward. And be sure to share your data with advertisers to help demonstrate the value you are providing to them.

Discovery is key

OTT is still a new product for many in your audience. Find ways to make them aware of your programming and why they should want to consume it.

1

Suffer the interface

Most OTT content interfaces are controlled by the hardware makers and frankly, they are not very good. Still, you must work within these interfaces to develop the best product and promotion that you can. Try to make someone on your staff the expert on a given interface and task him or her with developing a marketing/discovery plan for each device.

2

Keep it fresh

Even constrained by a weak interface, it's important to keep things fresh. Work with the tools you have to update content on the marketing screens users see, moving things around if they can't be updated. Try to make each new visit feel as fresh as possible to promote exploration and discovery.

3

Use your power

Your power, as always, is your core product. If you have a television channel or a destination site, use those to promote your OTT programming. And leverage user behaviors as much as you can. For example, tell viewers that the same place they go to watch Netflix is also where they can see your news on demand.

“Those who embrace and serve consumers in the way they want to be served will win. And those who keep fighting and put up barriers will lose. And be dinosaurs, very quickly.”

Kevin Mayer

Walt Disney Company, as interviewed by the Wall Street Journal, Dec. 2018



