OTT: The beginning of the end for DTH?

Over-the-top (OTT) services deliver video, audio, messaging and other media services directly over the Internet. Content can be consumed via PC, Smart TVs, Smart phones, tablets, set top boxes (STB) and games consoles. The leaders in their respective fields, Netflix, Skype and WhatsApp, have gained significant market share from traditional service providers like direct to home (DTH) broadcasters and mobile phone operators in recent years. According to the most illegally downloaded and streamed TV series of all time, Game of Thrones: "When you play a game of thrones, you win or you die." But is this true when it comes to OTT and traditional services, or is there room for both on the market?

OTT first became a viable alternative to DTH broadcasting in the mid-2000s, with market leader Netflix launching OTT streaming services in 2007. Unlike many technological innovations, OTT take-up was slow for a number of reasons, primarily due to the lack of high-speed broadband in much of the world. However, as Internet capabilities have improved, OTT has become more widespread, and today is present on the marketplace as three distinct business models:

- SVOD: Subscription-based services e.g. Netflix.
- AVOD: Advertisement-supported services e.g. Crackle.
- TVOD: Transactional services e.g. iTunes, Amazon Instant Video.

With multiple business models and the rise of high-speed broadband, we’ve seen a lot of OTT players enter the market, with varying degrees of success. Furthermore, reports suggest that while the OTT market continues to grow, it may not be having the detrimental impact on traditional services such as DTH that might be expected. In June 2016, Limelight Networks released its semi-annual ‘The State of Online Video’ report, which stated that the OTT market is growing fast and is yet to reach saturation. Some 38.4 percent of respondents (up 1.5 percent year-on-year) subscribed to one OTT service, 18.8 percent (up 4.4 percent year-on-year) subscribed to two, and more than 10 percent (up 2 percent year-on-year) subscribe to three or more, leaving 31.2 percent (down 8.9 percent year-on-year) without an OTT package.
In the first of several surprising outcomes from Limelight’s survey, it turns out that YouTube is one of the main causalities in the rise of OTT; in December 2015, some 46.9 percent of respondents watched most of their online content on YouTube, but this fell to 45.5 percent in just six months. This trend is expected to continue as demand for higher-quality content becomes more important than price. Meanwhile, December 2015 saw 26.1 percent of respondents report that they watched most of their online content from OTT services, which grew to 29.8 percent in June 2016. In another surprise move, it turned out that millennials (those currently aged 18-34) were the most likely to have abandoned YouTube in favour of OTT. Furthermore, some 23 percent of millennial respondents now live in OTT-only households, while 61 percent subscribe to both paid-for TV and OTT services, much higher than the 52 percent average across all age ranges.

Of particular note from the report was the 14.7 percent of respondents who indicated that they would never terminate their paid-for TV subscription, up from 10.5 percent in May 2015. The top reasons for leaving a paid-for TV subscription were price increases (29.4 percent), the ability to subscribe directly to desired channels (19.5 percent), and more sports and other live events becoming available online (9.4 percent).

Meanwhile, 2015 saw Northern Sky Research (NSR) release its ‘Linear TV via Satellite: DTH, OTT and IPTV, 8th Edition’ report, which found that despite the challenges, the linear TV via satellite market will continue to grow steadily. More than 21,000 new channels are expected by 2024, while satellite transponders dedicated to the DTH and video distribution markets are expected to exceed 3,500. Key drivers like the proliferation of HD, 4K and localised channels, and increased uptake in developing regions without access to high-speed broadband, are expected to outweigh the slowdown in North America.

“Although OTT platforms have become increasingly mature in North America, elsewhere the development of OTT platforms is in its infancy and is expected to have limited impact on traditional video platforms in the short to medium term,” said Alan Crisp, Analyst with NSR and lead author of the report. “Nevertheless, longer-term, it will essentially be compulsory for DTH and other pay TV platforms to offer OTT as a supplementary service, to both increase retention amongst existing subscribers, and signing up new subs based on exclusive content, and effectively becoming a ‘one-stop-shop’ for content as much as feasibly possible.”

If you can't beat them...

In the face of what has been perceived as a significant threat by satellite and fibre broadcasters, a new era of hybrid services has appeared, with demand spearheaded by the...
millennial generation.

In 2014, Netflix’s domestic subscriber numbers grew to 37.7 million, overtaking HBO’s 31.4 million, despite HBO’s broadcast of the most popular TV series on the air: Game of Thrones. To win a bigger share of the viewership and gain entry into the growing OTT market, HBO launched HBO Now, a subscription-based OTT service with full access to its library and content for US$14.99/month.

Game of Thrones is HBO’s first series to run for six years while consistently building viewers. The latest season has averaged 23.3 million viewers per episode for HBO, up 15 percent year-on-year. TV and on-demand viewing of the series grew by four percent, but HBO Now and HBO Go viewing increased by 70 percent. Accordingly, HBO’s venture into OTT services has been judged a resounding success by all involved. “HBO Now doesn’t cannibalise anything on the network. It simply expands the audience’s opportunity to watch our programmes. It’s all about expanding the pie,” said HBO’s CEO, Richard Plepler.

The BBC has enjoyed similar success with its OTT platform, BBC iPlayer. During the broadcast of the England vs Wales match in the UEFA European Championship 2016 on 16 June 2016, the BBC claimed 73 percent of the broadcast TV viewership, in addition to 2.3 million viewers watching online via BBC iPlayer. “We are delighted that the BBC’s digital offering again allowed so many people to share in this huge game. Our enhanced service, in addition to our TV and radio coverage, puts audiences at the very heart of the Euro 2016 action,” said BBC Sport Director, Barbara Slater. “The BBC has pioneered live digital event coverage from London 2012 Olympics to Glastonbury, and our record-breaking figures highlight its increasing importance to audiences.”

Other traditional TV broadcasters have also jumped on the OTT bandwagon, including CBS, Lifetime, and ITV. Most are looking at original or exclusive content as a way to drive subscriptions. For example, the CBS All Access US$5.99/month package will exclusively provide a new Star Trek series and a spin-off from The Good Wife in the coming months.

**Challenges to OTT uptake**

As highlighted by the reports from Limelight Networks and NSR, while OTT is a growing sector, it isn’t without its challenges.

The top hurdle, without a doubt, is the availability of high-speed broadband. Netflix itself states that speeds of 3Mbps are required for SD video streaming, 5Mbps for HD, and 25Mbps for 4K. For those without high-speed Internet access, OTT services are only available at sub-par quality, or not at all. With image quality becoming more important among a significant proportion of consumers, notably sports, documentary and action movie enthusiasts, being unable to achieve 4K content through OTT services, when it is available via other DTH services, makes OTT less attractive.

The attainment of high-speed broadband access on a global scale still has a very long way to go, despite widespread broadband initiatives and investments. Akamai’s ‘State of the Internet’ report said that in the last quarter of 2015, the average global broadband speed was 5.6Mbps, with the highest average speed found in South Korea at 26.7Mbps. However, many regions, particularly in Africa, have speeds of less than 1Mbps, while other areas have no connectivity whatsoever. Indeed, only 69 percent of global IP addresses had average internet speeds greater than 4Mbps, while 32 percent had 10Mbps or greater speeds, and 7.1 percent exceeded the 25Mbps required for 4K streaming.

The correlation between access to high-speed broadband and OTT adoption has been demonstrated repeatedly, including recently by Kings College London, which performed a UK-wide study. Researchers found that areas with slow broadband speeds, like the Isle of Wight, East Yorkshire and Northumberland, were the least likely to use OTT services like BBC iPlayer. “The lack of high-quality broadband is having an effect on many people’s ability to access streaming services. If they can’t access streaming services, it is reasonable to assume other data-heavy services, such as music streaming, rich news sites or social media, may not be suitably accessible, leaving a significant number behind,” said Lead Researcher Nishanth Sastry.

As new terrestrial and satellite high-speed broadband projects move forwards, more consumers will have adequate connectivity for OTT services, increasing uptake.

The take-up speed of Smart TVs, which can stream OTT content directly from the Internet, has been highlighted as another key factor limiting OTT adoption. It’s one thing for millennials to stream Netflix onto ‘dumb’ TVs via HDMI cable from their laptops, and quite another to expect older generations, who grew up without access to the same technology, to do the same. As Smart TVs fall in price and make up a higher percentage of family TVs, we’ll almost certainly see more of the less tech-savvy generation becoming better-acquainted with the range of OTT services available today.

Beyond technology, there’s also the vital matter of content. Without the right content, OTT services will struggle to win or retain subscribers. Most OTT companies today are following the Netflix route, with a mixture of licenced popular...
content and original programming. Indeed, Netflix has seen strong customer uptake and loyalty thanks to its ‘House of Cards’ and ‘Orange Is The New Black’ blockbuster series, both of which have since become available on DVD. Similarly, Amazon has drawn in new subscribers to its Amazon Prime OTT service with its popular original series, ‘Mozart in the Jungle’ and ‘Transparent.’

A hybrid future?
In the near future, we can be reasonably sure that OTT services do not constitute a direct threat to traditional broadcast services. A significant part of the global population still has no reliable high-speed broadband access, making DTH broadcasting via satellite or fibre a more cost-effective alternative, and, in some cases, the only option.

However, OTT services will continue to expand for the years to come as high-speed broadband becomes more ubiquitous, and SmartTVs become more affordable and more commonplace. Another driver is the added convenience of services like Netflix and Amazon Prime, which make OTT the video-on-demand method of choice for many, particularly the younger generation, who are more accustomed to viewing video via other devices, like laptops, tablets and Smart phones.

Even with the eventual roll-out of high-speed broadband around the world, it’s unlikely that traditional broadcast services will see too much decline in subscription numbers, provided they keep ahead of the game. The most probable outcome is the adoption of hybrid services, with households opting for a mixture of satellite and/or fibre content, in addition to OTT services. This can be counted on so long as traditional broadcasters continue to get the content right: in demand and exclusive.