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MAXIMIZING VOD PROFITABILITY

Better selections, shorter windows are fueling consumer demand for VOD.



By Jim Barthold

The growth of video-on-demand is being fueled by the number of devices consumers can use to watch television and the need for traditional pay-TV operators to fend off over-the-top video service providers who want to grab a slice of the lucrative pay-TV pie.

“Innovation changes everything,” said industry analyst Jeff Kagan. “Cable television has been stuck for the last several decades because there was no competition and because there was no innovation with technology. In the last several years that’s been changing.”

The change became critical when MSOs begin losing hundreds of subscribers each quarter. VOD, built on cable’s video programming foundation, gave operators a way to minimize their losses by offering subscribers the convenience to watch what they want, when they want and where they want.

For all its industry-shaking hoopla, VOD is proving to be just another way to watch television on a television.

“The majority of viewing is still happening on the television,” said Steve Meyer, vice president of video strategy and analysis at Comcast. “When we look at how people are viewing television they’re still viewing in prime time; they’re still sitting down between 8 and 11 p.m. Prime time is still the viewing time.”

VOD OFFERS A NEW PRIME TIME

VOD tops DVR because consumers can slot out periods of times—Meyer said Friday and Saturday nights are prime—to sit and watch on-demand television.

That, conceded Chris Pizzurro, head of product, sales and marketing at cable-owned Canoe Ventures, is “kind of unsexy ... but the real difference is that it is on the consumer’s timetable so it is their prime time.”

INSTANT VOD IS ON THE HORIZON

Some believe that VOD is the next logical step beyond DVR because it presents content without the need to search and set recordings. VOD is also beginning to benefit from shorter windows between live broadcast and VOD availability, making it increasingly irrelevant to record a show that will be available on-demand in a few scant hours.



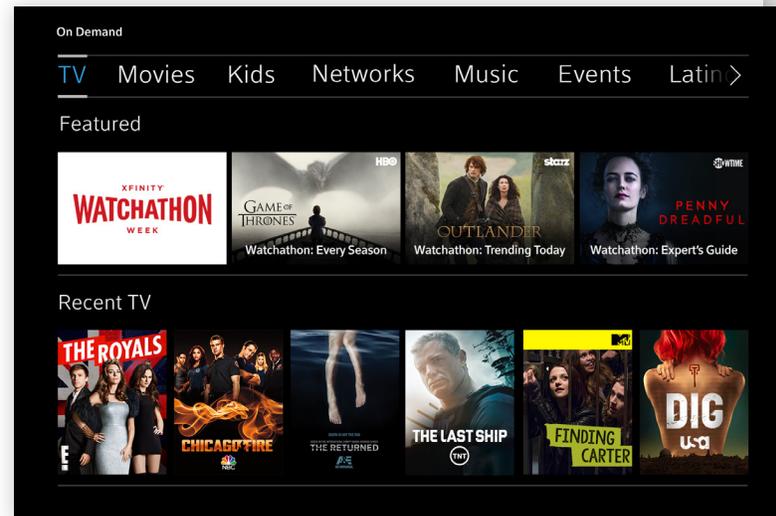
“When we look at how people are viewing television they’re still viewing in prime time; they’re still sitting down between 8 and 11 p.m. Prime time is still the viewing time.”

Steve Meyer, vice president of video strategy and analysis at Comcast

“We’re working with a number of networks to trial instant VOD which really is having video-on-demand content up shortly after linear airing,” Meyer said. “It could be as soon as 15 minutes; it could even be instantly or immediately available after the program.”

Comcast put the premiere of HBO’s ultra-popular “Game of Thrones” on VOD at the same time it

was airing on HBO. This summer the MSO will slam the window shut. USA Network will air the premiere episode of “Playing House” in its regular time slot and then each subsequent show will be available one week early on VOD as part of a deal between Comcast and the network.



About 79 percent of Comcast subscribers use VOD once a month and average about 18-19 hours of viewing a month.

“We think that video-on-demand lends itself to this; to different windows, different ad models and even different advertising integration,” Meyer said.

For Comcast, which has been in the VOD business for a decade, VOD is alternately old hat and a new learning experience. Seventy-nine percent of Comcast subscribers use VOD once a month and average about 18-19 hours of viewing a month. When they move to Comcast’s advanced X1 platform those numbers grow even more with about 85 percent accessing VOD.

There’s also been a transformation in the type of VOD people watch—driven by competitors like Netflix and Amazon and Hulu that based their businesses on episodic television mixed with premium movies.

“We noticed about three to four years ago a real growth in the rise of episodic television consumption, broadcast and cable TV shows, ad supported, free as part of your subscription,” Meyer said. “That content has grown over 100 percent over

the last five years to the point where it's now the No. 1 category of viewing on-demand."

Last year Comcast totaled 2.8 billion hours of content viewed on set-top box VOD and this year it's predicting to hit 3 billion. Of that number, 46 percent is TV episodic viewing.

MIGRATING CONSUMERS

That's where Canoe Ventures enters the space. Although Canoe is owned by cable companies Comcast, Time Warner Cable, Brighthouse and Cox Communications—and open to deals with other multichannel video programming distributor—Pizzurro said he works for the programmers. "I have contracts with everyone from ABC to TNT to CBS and Fox. We are their backroom ad operations for inserting ads in a cable operator's VOD. They pay me and I work for them."

It's part of a process that has moved consumers from watching linear TV to watching program playback from digital video recorders to plucking VOD content from a provider's entertainment library. Each step seems subtle but the result is a

sea change in the way people access content and watch television.

"Cable television has been stuck for the last several decades because there was no competition and because there was no innovation with technology. In the last several years that's been changing."

Jeff Kagan, Industry Analyst

"This is still the beginning. We're not halfway through or three-quarters of the way through," Kagan said. "Today you can watch television anywhere on any device. But what will it be like five years from now? What technology are we going to use? Nobody knows but we're in the middle of a big transformation." ■

MATURE DYNAMIC AD INSERTION TECHNOLOGY BOOSTS VOD REVENUE POTENTIAL

by Jim Barthold

Using dynamic ad insertion technology in video-on-demand programming is finally beginning to pave a path to profitability for service providers and programmers while at the same time opening up more content to viewers and pushing back insurgent OTT service providers.

Programmers have been reluctant to stock video content libraries for on-demand viewing, but the opportunity to dynamically insert ads to effectively double dip on advertising revenues—first with linear and second with VOD—making this model more appealing.

“In VOD’s early stages you would get the same ads and there was no ability to change those up (to reflect time changes and new priorities),” said Tim McElgunn, chief analyst, broadband advisory service at BloombergBNA. “Now, at least conceptually if not technically, you can swap out those ads every two days and fill those spots with new ads and with targeted advertising.”

That’s caught the attention of programmers that are willing to free up more seasons of content to be stored on MVPD platforms. In fact, programmers are now starting to make DAI-driven VOD part of their agreements with service providers.

“Dynamic ad insertion is a rapidly growing opportunity for us (and) will start becoming significant from what is now a very small base as we go forward,” Philippe Dauman, president-CEO of Viacom told analysts during a fourth quarter 2014 earnings call.

CAPITALIZING ON DIA

It’s only starting to become significant because DAI technology is only now fully operational.

“It’s obviously been a long time in coming for the industry in capitalizing off the viewership of VOD,” said Ian Olgeirson, senior analyst for SNL Kagan. “At this point I don’t think we’ve seen astronomical increases in VOD viewership.”

That’s about to change as programmers make more content available, and operators close the window of time between when a show airs on linear TV and when it’s available on VOD. In addition, there’s now more mature technology to insert ads.

“Consumer tolerance for ads may be a bit of wishful thinking. You’ve seen a lot of sources of consumers either willing to pay a significant amount of money for a DVR service which helps them skip the ads or move to Netflix (where) one of the beauties is the ads are already stripped out.”

Ian Olgeirson, senior analyst for SNL Kagan

“We’re still a little bit early. If I look at what’s happening in VOD DAI it seems like it’s been a great journey that’s really taking off,” said Chris Hock, senior vice president of business development and strategic partnerships for BlackArrow. “We have technology up and out and it’s starting to reach multiple operators. Programmers are starting to get on board and DAI is starting to get extended to multiscreen.”

Multiscreen, or TV Everywhere, is probably the next phase for DAI, along with dynamically inserting ads into DVR playback delivered from the cloud.

“As soon as you go to cloud DVR, that’s VOD. I don’t care what you call it, that’s VOD,” said McElgunn.



“Programmers are starting to get on board and DAI is starting to get extended to multiscreen.”

Chris Hock, senior vice president of business development and strategic partnerships for BlackArrow

Inserting advertising—even targeted advertising—in places where consumers have been accustomed to leaning on a fast forward button, isn’t necessarily the most appealing thought. However, it doesn’t have to be that way, Hock said.

“At BlackArrow we give visibility into the playback stats,” he said. “If viewers watch the ad or fast forward through the ad or don’t fast forward through the ad, that data can be used to optimize the entire experience. Operators or programmers can see how people are reacting to their content and to the ads inserted in that content and react accordingly.”

Hock said the DVR process doesn’t have to change even if it goes into the cloud. It can just be adjusted to viewer tastes and, in the end, sold to programmers with the notion that a cloud DVR, even with fast forward, provides data on the impact of advertising that a traditional DVR cannot do.

USING VOD TO BUILD VIEWERS

But, again, that’s in the future. Today’s scenario is the arrival—finally—of a way to make money by

dynamically inserting advertising into already aired episodic television. OTT providers like Netflix and Amazon Prime have built whole business cases—sans advertising—on the idea of binge watching. MVPDs have a more attractive offer for programmers: make money from material that might have seen better days and potentially drive viewers back to ad-supported live linear broadcasts.

“Usually shows decline year-over-year, they don’t grow year-over-year,” Joshua Sapan, CEO-president of AMC Networks told analysts during a fourth quarter earnings conference call. Making that content available for on-demand viewing allows new viewers to find programming and, if they like it, perhaps “find (a) way to watch it on linear,” he said. “We think we’ve seen that phenomenon.”

The old content can even be updated because new, more relevant ads are inserted into the same time slots that were available for advertising the first time around.



“Our cable distribution partners and telco distribution partners are now beginning to implement the kinds of technology and functionality that (has) resulted in a very significant increase in the consumption of our content ... in terms of VOD off the cable library that they provide

and store. We're beginning to be able to track that; we're beginning to be able to monetize that with digital commercial insertion," said Thomas Dooley, Viacom's COO during a fourth quarter earnings call with analysts. "(As) that functionality becomes more broadly available across the ecosystem, that will be a big driver of our growth into the future and something that consumers really like and really want to use."

AUDIENCE TOLERANCE OF ADS

Based on the success of OTT, it's obvious that consumers really like to view programming on demand. There's no hard evidence yet, however, that an audience that has done everything possible to avoid ads will be willing to sit through them no matter how attractive the programming.

"Consumer tolerance for ads may be a bit of wishful thinking," Olgeirson said. "You've seen a lot of sources of consumers either willing to pay a significant amount of money for a DVR service which helps them skip the ads or move to Netflix (where) one of the beauties is the ads are already stripped out. Consumers certainly have been trained over the decades to tolerate ads, but they're also finding ways to get around them and that probably speaks volumes."

The counter-argument, of course, is that nothing is free. The MVPDs—and their programming partners—are counting on consumers to swallow an ad or two (or three or four) rather than subscribe to an OTT service. ■

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