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Why SVOD Services Fail

Five Common Mistakes and How to Avoid Them

It wasn't that long ago that online video was limited to 480p windows on computers and content centered largely around short clips of dancing dogs, or cats on skateboards. "Successful" videos collected several thousand views, were not monetized, and had a shelf life measured in weeks.

Even as streaming premium content to the family-room TV became more common, it was still characterized as being — at best — complementary to traditional pay-TV services. It was seen as an alternative only for younger (or economically challenged) consumers. Its value was regularly debated at industry events in sessions with titles like "Online Video: Friend or Foe?"

One of the biggest drawbacks, according to foes and friends alike, was that online video was a "lean forward" experience that wouldn't appeal to consumers who were used to, and preferred, a "lean back" experience.

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Today, most of that supposition has gone out the window. It's a vast understatement to say that consumers are embracing premium, long-form online video, especially via subscription video-on-demand (SVOD) services, as their new source of video entertainment. According to a number of studies, at least half of subscribers in the United States take two or more SVOD services, combining disparate content sources to create their own "bundle" of on-demand virtual pay-TV.

While a couple of major global players currently have the bulk of subscribers, we expect that to change as more content providers — from large broadcasters to small, niche providers — make their assets available online.

Competition for subscribers will be fierce as players look to leverage their content for maximum return in the era of BYOB: build your own bundle. There will be winners — and losers — in the race to become part of the "new bundles" of content that are user-created and curated.

This white paper from Ooyala's Strategic Media Consulting team can help you be one of the winners. It examines the current state of SVOD services and reviews a number of common mistakes providers have made. The team has completed many SVOD engagements globally and gathered insights on what makes a service sink or swim. This paper provides guidance on how — specifically — smaller, or niche, SVOD providers can succeed in this highly contested space.

SVOD MARKET OVERVIEW

The hunger for quality video-on-demand is driving an industry that's expected to see more than **$108.6 billion in revenues by 2026** — more than double revenues in 2015. Some of the largest potential markets in Asia-Pacific and Latin America still in their nascent stages.

In more developed markets like the United States, subscription video-on-demand services are in more than 61% of all connected households (HH), per Futuresource Consulting research. In Germany, nearly one-third of connected HHs (30%) have SVOD subscriptions; there, SVOD is growing faster than any other segment of home video, according to GfK, with sales forecast at $328.4 million in 2016.

Emerging markets are seeing even more dramatic growth. Asia-Pacific had 41.86 million SVOD subscribers in 2015, a number that grew to more than 76.12 million in 2016. Digital TV Research (DTV) forecasts subscriber numbers to more than double to 157.78 million by 2021. In Latin America, subscriber growth is forecast to be at least 160% between 2015 and 2021.

While many of those SVOD users will opt for big streamers like Netflix and Amazon, an increasing number will look beyond them. In 2010, there were 19.1 million Netflix subscribers globally, and just 9 million subscribers to other services. By Q3 2016, Netflix subscriber numbers were up 327% to 86.5 million, but the number of subscribers to other services grew 1,187% to 115.9 million, reported Digital TV Research. That growth will continue.

As growth rates for SVOD differ regionally, so, too, do the ways video is consumed. For example:

- In the United States, connected TVs remain a staple for SVOD consumption, with 43% of users saying they watched SVOD on TVs connected to the Internet through a variety of devices, according to a September 2016 survey from Clearleap. About 15% said they watched SVOD on laptops, 15% on smartphones and 10% on tablets. 12% said they watched on game consoles and just 5% said they used desktop computers to consume SVOD.
- In France, according to Mediametric, subscribers were more likely to watch on connected TVs (55%) than tablets (17%), smartphones (11%) or computers (30%).
- 59% of Australians said they watched SVOD on connected TVs, 21% watched on tablets, 12% on mobile phones and 41% on computers, according to a survey by the Australian Communications and Media Authority.
- Japanese viewers were most likely to watch SVOD content on laptop or desktop computers (53%), followed by smartphones (39%), tablets (10%) or connected TVs (19%), reported Nielsen NetRatings.

How long they're watching also is changing. A recent report from TiVo showed that 75% of North American consumers who consumed SVOD content in Q3 2016 watched for more than an hour daily; more than 40% said they watched for more than two hours a day.

As with any newer technology, younger users generally are the earliest adopters. Such is the case with SVOD, where Millennials over-indexed significantly. But, studies show, other generations are catching up rapidly.

Clearly, the opportunity for new SVOD services, as more users discover online video through services like Netflix (which Australian business intelligence firm, Roy Morgan Research, called a "gateway into SVOD"), will lead to enormous demand for new content and even greater potential for new SVOD players to carve out a niche and attract both first-time and multi-service subscribers.

As the SVOD market has matured, so have consumer expectations. Subscribers today expect a rich experience that offers even more than the traditional lean-back TV experience. Easy discovery, the ability to navigate on a TV via a single source without having to change inputs, and access to a nearly unlimited supply of premium content are quickly becoming table stakes for any SVOD service.

Interestingly, traditional television increasingly is imitating the technology that it's being replaced by. Today's TV viewers have the ability to binge on content, to watch it on multiple devices when and where they want to, and to take content with them on mobile devices for offline consumption.

Access on a mobile device, be it tablet, smartphone or laptop, also has become table stakes for SVOD services because that's the way Millennials — and other generations — want to watch. Mobile devices play a major role with younger consumers who will be your dominant audience tomorrow (if they aren't already today).

If you are looking to launch your own SVOD service there is still everything to play for, because if you can capture it on video, there is a market for it. The difficulty, of course, is making a service successful. In the next section we highlight five mistakes we at Ooyala have noticed time and time again. We'll also tell you how to avoid them and outline a step-by-step approach to building your own successful SVOD brand.

COMMON MISTAKES OF SVOD PROVIDERS

How can you ensure you make the most of this rapidly growing market? The best way is by avoiding mistakes common to a number of SVOD providers that have fallen out of this market in recent years.

! Mistake 1: Unrealistic expectation of rapid subscriber growth

Given the hype around online video, it's easy to understand why SVOD services expect huge success in the immediate aftermath of their launch. All too often this is not the case; it can take a long time to build a loyal, engaged and sizeable audience. A viewer's awareness of your service does not automatically lead to account creation, no matter how attractive your content or how straightforward your sign-up process. It is also far too easy to look at other players in the online video landscape (or, indeed, at your existing business) and expect your service to achieve similar levels of success. This overlooks a number of crucial points.

Netflix may have more than 90 million streaming customers, but they launched in 1999 and have offered streaming video for almost 10 years; furthermore, it took them the best part of 5 years to attract 1 million DVD subscribers. Success did not come quick, or cheap. CBS, the most popular network in the U.S., took more than a year to attract 1 million viewers to its All Access streaming service. Viral videos may generate millions of views in a matter of days, but they are free to view and, by their very nature, eminently shareable. As in life, patience is a virtue when launching an SVOD service.

How to avoid it: Set achievable goals and define success beyond subscriber numbers

When it comes to setting up an SVOD service, it is important to manage expectations and set appropriate, and achievable, subscriber goals. Few services will hit 100,000 subscribers in less than a year, let alone 1 million, so don't lose heart if subscribers don't immediately flock to your service. In the early stages, look at metrics like churn, engagement and subscriber satisfaction instead of subscriber and revenue growth as your key measures of success. Use data to uncover what your subscribers like and produce more of it. Furthermore, measures of success, and overall objectives, will vary hugely between companies. For example:

- Netflix may define success as 50% penetration in a market like North America...but in developing markets it might target the 10% of Internet users — the iPhone owners, as Netflix CEO Reed Hastings has said — that it feels are most likely to find a global service appealing.
- For regional SVOD service providers, success might be measured in the single-digit millions of subscribers after a year or two.
- For a broadcaster in the Philippines, success may be audience share that complements its share over the air. And,
- For a service that features extreme distance running, a successful service may simply be one that breaks even and allows a passionate owner to commit more funds into producing high-quality content.

Success for an SVOD provider is going to vary with the goals of its owners. Set realistic goals, be flexible in both assessing and redressing them, and be willing to invest your best content in them to help assure their success, remembering that it could be a very long ball game. Perhaps Netflix outlines the struggles best in its Long-Term View: "If you think of your own behavior any evening or weekend in the last month when you did not watch Netflix, you will understand how broad and vigorous our competition is."

! Mistake 2: Trying to emulate Netflix (and Amazon Prime Video)

Once you get to the stage where subscriber numbers become relevant, it's useful to define your target audience based on your content availability. Here we see another common source of failure: local or targeted SVOD services trying to emulate or compete with Netflix.

> "If you think of your own behavior any evening or weekend in the last month when you did not watch Netflix, you will understand how broad and vigorous our competition is."
>
> **— Netflix**

What do we mean by this? Netflix, and arguably Amazon Prime Video as well, have established themselves as global leaders of mass-market video offerings. These two players have unmatched scale of content offerings, along with very deep pockets. Others looking to build a similarly large content catalog will find the going tough, both due to the lack of available content and the cost of amassing such a library. Many of the recent departures from the SVOD landscape have failed because they tried to follow in Netflix's path by building a large, non-differentiated content offering with no specific target audience. They have foundered due to a content catalog that is neither attractive to viewers looking for everything, nor to viewers interested in one specific content genre.

How to avoid it: Identify and target your niche

Most future SVOD services shouldn't attempt to "be Netflix." Instead they should identify the specific genre, or niche, they want to excel in, size their target audience on a national, regional or global level, and move from there. As we have mentioned, they are unlikely to achieve a subscriber base equivalent to Netflix, but they will attract a keen audience willing to pay for content they can relate to. Research from MTM and Ooyala has found that the barriers to niche services are perceived to be falling in many regions, with improvements in technology and more special interest content available now to passionate audiences.

For example, **Feeln**, Hallmark's multi-screen SVOD service, delivers "feel good" content to its targeted digital boomer audience across a broad footprint of devices. Use data to help identify popular content and license third party content, or create originals, that resonates with your existing audience and will help attract new subscribers. Ideally your videos would also have accompanying textual and audio content, though this is by no means a prerequisite to success.

It is vital to have a library of unique and compelling content. While it doesn't necessarily have to match Netflix and Amazon in terms of volume, it should be updated on a regular basis so viewers have a reason to subscribe month-in and month-out. If we look at the CBS example again, the broadcaster will launch the next iteration of its popular *Star Trek* series exclusively over its All Access service and fully expects it to be a drive significant subscriber growth.

! Mistake 3: Ignore the consumer. Worse, make them unhappy

While identifying your niche and audience, you must make it as easy as possible for subscribers to register, pay, enjoy the content and — importantly — unsubscribe, as a number of studies have found that consumers value the ability to add and drop services at will.

First, the signup process. We've all been here, hooked by the promise of a free trial or a valuable content offering, but then bombarded with multiple screens asking for detailed information before we can sign in, from usernames and addresses to profile pictures.

Every time you ask for more information on a signup page you reduce the chance of a consumer completing the registration. Netflix, for example, asks for just three pieces of information to begin a free trial: an email address, a password and, finally, your credit card.

Think about what information you really need and what you can gather throughout the life of a subscription. Hook folks into your offering before asking for more.

Over the next few months nearly a third of consumers in six key markets are expected to sign up for an SVOD service. **Half of them will cancel within six months**. Keeping customers loyal is *the* major challenge facing providers. As OTT adoption nears the 60% range, operators need to address every point of the customer journey and work harder to keep new and old subscribers alike; bad customer service is often highlighted as a contributing factor behind cancellations.

When it comes to quality of delivery, satellite, cable or broadcast TV is, relatively, flawless. Quality is high and issues with picture or sound aren't usually catastrophic, although they do happen. However, to be able to charge for an online product, service providers need to be able to deliver the content at the same and, possibly, better quality than legacy service providers, and with additional functionality.

You don't have to look very far to see that judge and jury can be merciless in the SVOD world. Ooyala's **Global Video Index** found subscribers — if they perceive your service to have technical faults or, heaven forbid, buffering — will be quick to drop you. Indeed, some services actually use quality of delivery information to update their list of 'at risk' subscribers.

How to avoid it: Put the consumer front and center at all times

Users have come to expect a range of features and functionalities from online video. Among them: easy content discovery and a good recommendation engine, ease of use with consistent navigation, minimal load times and buffering, simple payment and cancellation mechanisms, responsive customer service, secure handling of personal information and, perhaps most importantly, content that is unique and refreshed regularly.

Thirty percent of respondents to a recent Paywizard survey highlighted a lack of compelling content as a significant factor for cancelling an SVOD subscription. While a "Content is King" mindset is crucial if you want your service to succeed, it means nothing without viewer approval.

Consumers ultimately judge the value of their subscription by being able to watch what they want, where they want to watch it and how they choose to view it, so surfacing the most relevant content is absolutely key to showing that value.

Picture a book library: when you walk in the doors you get an immediate idea of how much content is available, a sense of the scale and the thoroughness of the content within. Now, place yourself in the SVOD world: You have one screen, of varying size, to get across your content library depth as best as possible.

Just like a first date in a restaurant, first impressions really matter here, so put your best foot forward. Make sure that your most relevant and up-to-date content is front of mind.

When it comes to initial content discovery, it is best to think back to more traditional viewing to understand how to approach it. When you learn about a TV show or new movie you want to watch, it is generally by advertising in press or more usually from a promo or trailer. These give you a good idea of whether you want to see the main feature. If you don't support your content with valuable descriptions, thumbnail images and promos, a potentially interested consumer could miss out.

Understand how your audience views content, then hit the mass market first, do your research or ask the experts and figure out what is essential versus what is "nice to have" at launch.

After that, your job is to keep the subscriber engaged by making sure you are learning from consumption habits and offering up the most relevant content going forward. A one-off show view and a poor recommendation engine are the quickest way to get a subscriber to "bounce' right out of your service and to the competition.

! Mistake 4: Defending an old business model

As newspapers and record labels have found out over the last 20 years, the rules of engagement online are *very* different from those offline. A common theme among SVOD failures over the last few years is that they were launched by broadcasters or TV platforms with one foot in the old world and a reluctance to adapt to the new business rules in the online world. Ask yourself: Are you defending an old business model, or creating a new one? Are you "all in?"

SVOD services sometime struggle when they are beholden to old business rules/content windows, old technologies or processes that never truly allow the new service to spread its wings and leave the nest.

How to avoid it: Embrace the economics of SVOD as opposed to existing business models

A new SVOD service will likely require a different business model from one in use by an existing business. "Copies sold" or "overnights" will be replaced by monthly subscribers, videos per viewer, quality of service, content licensing/production costs or marketing expenses. Individual customer metrics will be increasingly important and will require close attention. As mentioned earlier, revenues and subscriber bases will likely take a number of years to match that of your existing business; indeed it took Netflix until Q1 2013 for its domestic streaming service to contribute more to profit than its existing DVD base.

! Mistake 5: Reluctance to experiment and pivot

While companies have always experimented and pivoted, digital has made this easier than ever. It costs very little to run an A/B test, one that can result in significant increases in engagement and viewer satisfaction. SVOD services must also remember that they are dealing with digital distribution to new devices. A phone is not a TV set, and an unconnected TV set is not the same as a connected one. New devices demand new business models, ones that may have very different economics and measures of success compared to your existing, revenue-generating business.

How to avoid it: Conduct tests, monitor data, go with what works

We strongly recommend experimenting with practically every aspect of your SVOD service. Almost all digital firms conduct A/B tests on a regular basis, and that should be your approach as well. Testing can uncover small weaknesses in your service and allow for fine tuning and optimization across all aspects of your business. We would also stress the importance of playing by the rules of online. What works in the world of terrestrial and its spectrum constraints, like a 15-foot viewing experience and limited choice of channels, doesn't necessarily translate to an online world of infinite choice.

All SVOD services need an attractive price point. The market seems to have coalesced around a less-than-$15-per-month price point for most content offerings, though the price for your service should naturally be tailored around your content, technology and marketing expenses. Nearly two-thirds (63%) of consumers in a recent Paywizard study said cost was one of the top three reasons they'd give up a cloud TV service. Exceptions to the less-than-$15-per-month rule can be made for particularly high-end content, predominantly sports.

A trial period is critical way to help your potential subscribers fully understand the value that your new service offers. Take a moment and think about everything you subscribe to nowadays; it's growing all the time, so to compete you'll need to show why your new offering demands the viewer's hard-earned dollar. To this aim, it's wise to go 'all in' with your content. Be confident of your offering and lay out all that you've got; you'll get no points for subtlety in this game.

Use the data from usage of your service to make decisions that you can apply immediately to your business.

This in-depth white paper shows clear examples of how video insights can create actionable insights and measurable results.

CONCLUSION

Perhaps the easiest way to think about the success of SVOD services is to consider what made pay-TV services successful. They offered unique, differentiated content and a technologically superior experience. They were less constrained by technical limitations of the broadcast spectrum, didn't play by existing business rules and weren't as concerned by smaller viewer numbers. They placed more of an emphasis on customer experience and utilized different business models than existing broadcasters. They also allowed niches to enter the market and flourish, opening up new business wherever they launched.

All of that is as relevant today as it was in the 1980s. The stage is set for an SVOD content explosion: every genre, niche and theme that you could imagine, all unleashed from the restrictions of broadcasting and ready to be discovered and devoured by fans worldwide. Will your SVOD business be a winner?

Ooyala Strategic Media Consulting

ENGAGE THE EXPERTS

Ooyala Strategic Media Consulting brings the experts to you. With wide-ranging experience across media and broadcast technologies, our consultants are uniquely positioned to help you derive maximum value from your content.

OUR APPROACH

As an extension of your team, we consult objectively and collaboratively with your key executives. We look at your company's strategic goals and critical challenges, collect relevant internal and external information, and use a data-driven approach to make impactful recommendations that unlock value. Our recommendations help you stay ahead of fast-moving industry trends. Perhaps most importantly, we pride ourselves on transferring knowledge to your team with repeatable frameworks that let you make better and smarter data-driven decisions in the future.