

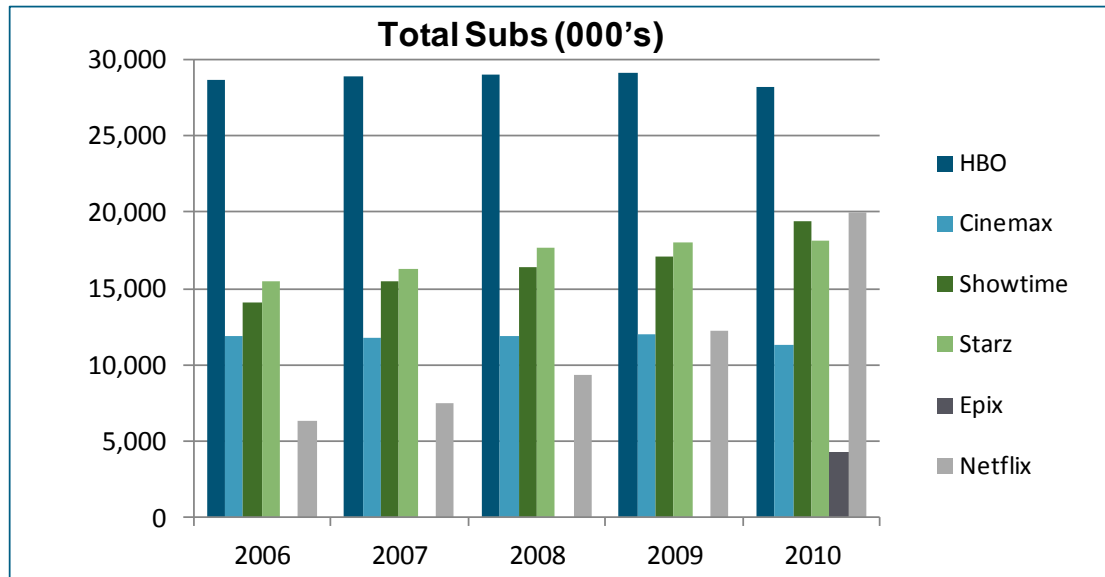
Move Over Netflix

IBSG Service Provider FastFacts

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OTT (over the top) online content distributors such as Netflix and Hulu are the new “TV networks.” Hulu Plus reached 1 million paying subscribers in less than a year, while Netflix in just five years became the second largest pay network. And, Netflix streaming video accounts for 29.7 percent of all North American fixed access network downstream peak period traffic (Sandvine, May 2011).

Figure 1. Netflix outpaced the growth of other premium movie providers, becoming the second largest pay network by 2010 (including both streaming and DVD subs).



Source: SNL Kagan, 2011

There are five main reasons why Netflix was successful with its streaming offering:

1. Its successful DVD-by-mail business provided a large customer base it could target with the new offering
2. High broadband penetration in the United States
3. Consumers became used to using online video through YouTube

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4. Media companies initially didn't know the value of streaming rights and provided their content to Netflix at extremely low cost. These costs have dramatically increased as media companies better understand the inherent value and they have adjusted the prices they charge Netflix and its peers accordingly
5. Continued great consumer experience that started with DVD-by-mail and the search and recommendation engines that Netflix have developed

Like TV networks, OTT content distributors want their content to reach the largest and most valuable audience. They do that using similar levers:

- **Content**—Breadth of prime content, genre, release window, rate of lineup refresh, HD vs. SD, long vs. short form, packaging/channelization, original productions
- **Business Model**—Ad funded, subscription, pay-per-view (single/prepaid), “freemium,” download-to-own, syndication, and in many cases giving consumer a choice (Amazon, iTunes) of different models for the same content
- **User Features/Experience**—Viewing devices / rendering boxes supported (e.g. tablets, gaming devices, connected TVs, Roku), ease-of-use, streaming/ caching, functions (rewind/forward), search (user-led, recommendations), social networking, rating, sharing, blogging, look and feel customization (filter, layout, noticing), interactivity

This approach is especially true as Netflix and Hulu Plus become more and more like TV networks. It affects not only the cost of content acquisition, but also compels direct output deals. These deals, in addition to being expensive, increase risks associated with unknown level of content attractiveness. For instance, according to SNL Kagan, Netflix signed a \$1 Billion deal with CW in October 2011 for 4 years, while their 2008 Starz deal for 3.5 years was for \$105 Million.

Incumbent players, such as traditional broadcast and cable networks, are feeling the impact of OTT players, including seeing premium content subscriptions at risk. They are responding by offering their own content online, directly via their own websites such as www.nbc.com or via TV Everywhere offerings provided by Service Providers.

However, merely offering yet another website for consumers to access content online is not all that it takes – build it, but they may not come! Market entry for less recognizable brands has become risky, and it can bring significant losses. According to Cisco IBSG analysis, the costs of creating a new, sufficiently competitive mainstream online “video network” including content acquisition, to compete directly in the subscription model can total in excess of \$100 million per year. Catching up with existing players is challenging for players new to online distribution, particularly in terms of being able to compete on the range of movie and TV content.

However, opportunities exist for potential entrants to compete:

- Focus on specific genres that are currently underserved and/or enable access to scarce content

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- Target geographic markets with lower current competition and greater future opportunities
- Offer alternative business models, that have different content requirements, such as ad-supported,
- Provide online content distribution via many broadly adopted devices/platforms, e.g. iPads, iPhones, Android smartphones, Panasonic Connected TVs, Xbox 360, to take advantage of online syndication models
- Offer a differentiated user experience, such as supporting key devices in a transparent way, improved content search, discovery and recommendations, and integration with social networks
- Partner with broadband service providers by signing “affiliate deals” to lower financial risks and to gain significant immediate market penetration

There are a number of players who are exploring how to best enter this space to compete against the new TV networks and / or to catch up with peers who are offering triple plays. For these possible entrants, a careful analysis of how to enter, how to best leverage existing strengths and an exploration of potential future scenarios will be key steps to take as they seek to gain a foothold in and differentiate themselves in this evolving market.

More Information

Cisco Internet Business Solutions Group (IBSG), the company’s global consultancy, helps CXOs from the world’s largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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