

SPs' Partnerships with Internet TV Companies Will Boost Revenues

IBSG Service Provider FastFacts

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Online video now comprises the majority of Internet traffic and is expected to grow 100 percent per year for the next five years.¹ Yet both media companies and service providers (SPs) have struggled to monetize this exploding trend. Cisco IBSG's research with digital media executives has clearly revealed that the industry is desperate for technology and tools enabling them to monetize online video.

At the same time, SPs' traditional revenue sources are in decline and SPs are looking for new markets they can address using existing infrastructures and core competencies. Internet video, while not a traditional market for SPs, is a viable complement to their existing business and offers a win-win scenario for both SPs and media industry players.

Through interviews with digital media executives, has Cisco IBSG identified four areas of need that create opportunities for SPs: content delivery, content presentation, content experience, and business model support. Each of these areas presents moderate- to high-growth opportunities for SPs choosing to provide superior solutions (see Figure 1).

Content Delivery

Content delivery is a high-growth area for SPs with the right technologies:

Digitization and Encoding: Publishing content in multiple formats is expensive and cumbersome for content providers. SPs have an opportunity to provide automatic encoding systems capable of syndicating content on the fly to a host of affiliated sites, dramatically cutting the cost of digitizing and encoding for media companies.

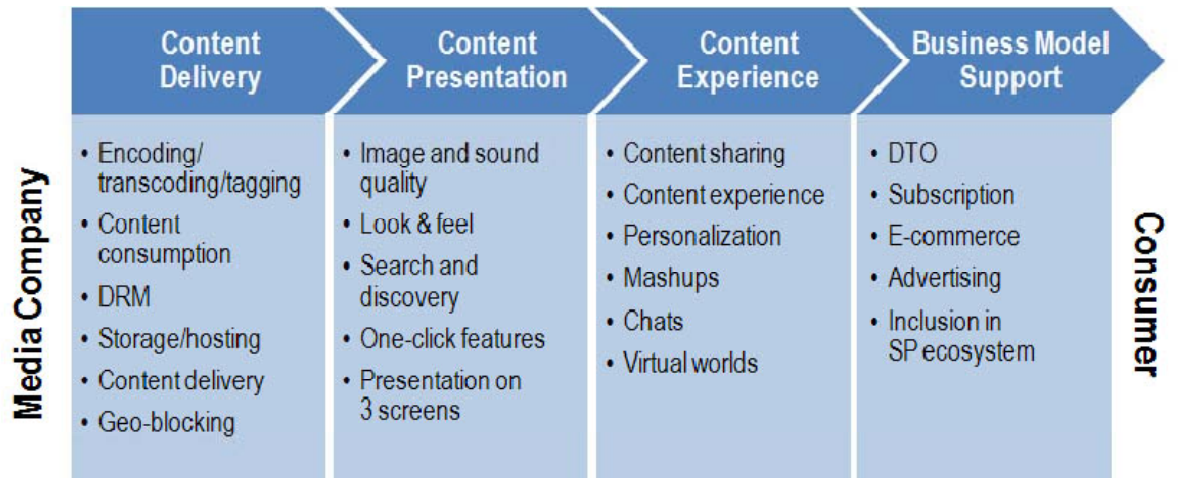
Content Delivery Network (CDN): After licensing of content, CDN is the single largest cost of doing business for media companies. SPs can offer scalable CDN solutions at a more affordable price while interfacing seamlessly with cloud services for storage.

Storage and Hosting: SPs considering becoming cloud service providers can gain media industry customers by providing affordable data centers capable of interfacing with various content delivery providers. Even better, SPs could offer an integrated data center/CDN solution

¹ "OTT Video: Service Providers Face a Gathering Storm," Aditya Kishore, Heavy Reading, March 2010.



Figure 1. Each Key Segment of the Internet Video Distribution Value Chain Is Supported by a Suite of Enabling Technologies



Source: Cisco IBSG, 2011

Content Presentation

Due to their existing investment in advanced network infrastructure, SPs are well positioned to offer valuable services around content presentation, for example:

- Improved **image and sound quality**
- **Search and discovery functions**, including personalized viewing suggestions à la Amazon or Netflix
- **One-click services** for pay-per-view (PPV), video-on-demand (VoD), or download-to-own (DTO) content
- Content presentation on **multiple screens**

Content Experience

Media convergence has empowered SPs to build appealing, unique, and proprietary environments that complement and enrich the online media experience. Consumers increasingly value interactive and customizable experiences while media companies have come to understand that such features increase sites' traffic. This creates an opportunity for SPs to enhance **customization and community features** by enabling social interactions around users' favorite content through meta-tagging, and links with social network sites.

Business Model Support

Small profit margins make it difficult for digital media companies to make expensive investments in technology. These are the key business models in the online video space:

Download to Own (DTO): Consumers consider DTO products inferior to packaged DVDs because they don't provide the "extras" that viewers now take for granted, and DTO prices are still too high. Additionally, large retailers are pushing back on coordinating DTO availability with the street date of the DVD, making DTO less attractive.

Pay-per-View (PPV) and Subscriptions: Although subscription revenues are rising, (Netflix being the best example) they are still small, so content providers are not incentivized to license content, and titles are typically offered late. Partnering with an SP could improve margins for subscription services, as SPs' platforms and marketing might draw more traffic to these sites. By bundling premium subscriptions with broadband access, SPs might boost their subscriber base.

E-Commerce: New e-commerce capabilities provide a lucrative addition to ad-supported or free sites. Content providers are particularly interested in technologies providing a seamless link between editorial content and related products offered for sale. Technologies that ease the purchase of digital products would increase the revenue potential of micro-transactions.

Advertising: Media companies want to target ads more effectively to the type of content watched, consumer demographics, and user behavior. Media industry executives would also like to see better integration of measuring and reporting tools across the advertising value chain.

An Opportunity for SP Growth and Differentiation

While providing support for digital media content providers may involve a significant investment for SPs, this strategy offers the promise of stable relationships in a market that will continue to grow rapidly (especially when consumers' expectations of quality and experience are met). SPs have an opportunity to wholesale platform and technology functions that they are deploying to launch their own content and services. The time to differentiate is now, with an opportunity to provide support and superior platforms to companies that are hungry for a better way of doing business.

To read the complete analysis of Cisco IBSG's research on SP opportunities with media companies, read "Online Video: What Do Media Companies *Really* Want?" at http://www.cisco.com/web/about/ac79/docs/pov/What_Do_Media_Companies_Want_FINAL.pdf

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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