The Growth of OTT Content: Opportunities and Threats for Service Providers

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Executive Summary

Worldwide, the popularity of over-the-top (OTT) content and services has been steadily increasing, with video service providers contributing to much of the increase in global Internet traffic. The success of companies such as Netflix, Hulu, Apple, and Amazon helped the OTT video market surpass $8 billion in 2012, with North America and Europe experiencing year-on-year growth in excess of 50%, and the global market expected to push past $20 billion by 2015[1].

This kind of growth could be viewed as a threat to traditional video providers — cable broadband operators. In mainstream media, reports of "cord cutting" (i.e. service cancellations) abound, but while evidence of this practice does exist, its prevalence is not as widespread as many may believe. So just how big a threat is OTT usage to traditional broadband service providers? And could OTT content actually provide opportunities for enterprising operators who are willing to make changes to improve service for their subscribers?

The Growth of OTT Content: Opportunities and Challenges for Service Providers seeks to gain insight into how broadband service providers view OTT content, the effect it has on the cable industry, and what strategies (if any) are being employed or planned by operators across multiple regions and of all sizes to prepare for increased OTT usage.

The results highlight that service providers across the globe take OTT content seriously, while also having a remarkably positive outlook for the future. The majority acknowledges that the popularity of OTT content could actually provide opportunities to develop new partnerships and revenue streams — even if it also presents some threats. Interestingly, most providers feel less threatened by cord cutting than bandwidth increases caused by OTT services.

OTT content is not going away anytime soon. Fortunately, broadband providers are not resting on their laurels. The majority of respondents surveyed have begun preparing to combat the bandwidth demands caused by OTT content, with more than 80% already upgrading their networks to cope with increased subscriber demand. Although there were regional variations between the strategies used, most respondents acknowledged employing several at once, indicating that there is no "one-size-fits-all" approach when it comes to dealing with the increase in OTT content.

Overall, the data suggests that broadband service providers currently favor the "stick" approach and are opting for bandwidth caps and fair usage policies that largely punish high bandwith users. However, this is changing, with more value-added services – such as unlimited streaming, faster speeds, and proprietary OTT services – planned for the future. It is true that OTT content is not going anywhere, but if the broadband industry continues to develop these strategies, neither are traditional service providers.

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[1] ABI Research: *Over the Top (OTT) and Multi-screen Services,* April 2013
http://www.abiresearch.com/research/product/1015959-over-the-top-ott-and-multiscreen-video-ser/

Methodology and Respondent Profile

Methodology

In Q2 2013, Incognito Software opened the *OTT Challenges & Opportunities* survey to broadband service providers from around the world. Respondents included existing Incognito Software customers and outside contacts, with invitations sent via email and social media channels, including LinkedIn and Twitter.

To ensure the validity of responses, each respondent was asked to provide an email address or entry code before access to the survey was granted.

Respondents reported whether bandwidth had increased in the past 12 months, and if so, by how much. From there, respondents answered a list of questions – including whether they viewed certain OTT content threats or opportunities as relevant, what strategies were used to counter the popularity of OTT services, what strategies are planned for the next 12 months, whether they understood their network usage, and the technology used to collect network data.

Respondent Profile

Globally, a total of 65 respondents completed the survey (see Figure 1).

- Europe, the Middle East, and Africa (EMEA) had the greatest representation at 33%, followed by Latin America (LATAM) at 29% and North America (NA) at 27%.
- Only a small number of respondents were from Asia Pacific (APAC), while 3% of respondents did not specify their location.

The majority of respondents were cable broadband providers (81.5%), with a smaller number of telecom providers (13.9%), and others who did not provide this detail (4.1%).

- The survey initially was only circulated to cable broadband contacts.
- When opened to a wider pool, nearly 50% of subsequent respondents were cable broadband providers.

Service providers ranged from smaller regional players to large operators:

Figure 1: Survey Respondents by Region

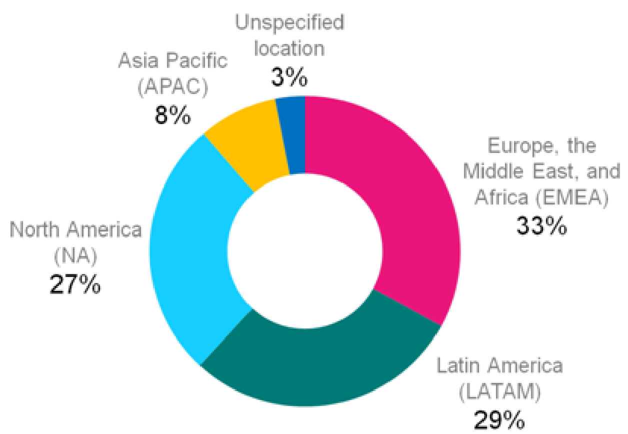
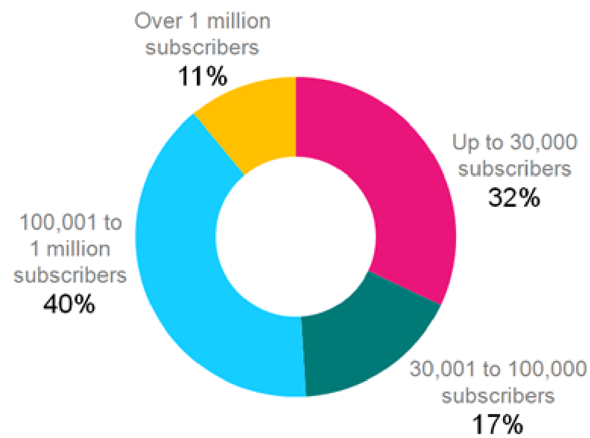


Figure 2: Survey Respondents by Size



The higher percentage of smaller and mid-sized operators reflects the wider industry, where there are more Tier 2 and 3 providers than large Tier 1 operators (see Figure 2).Key Findings

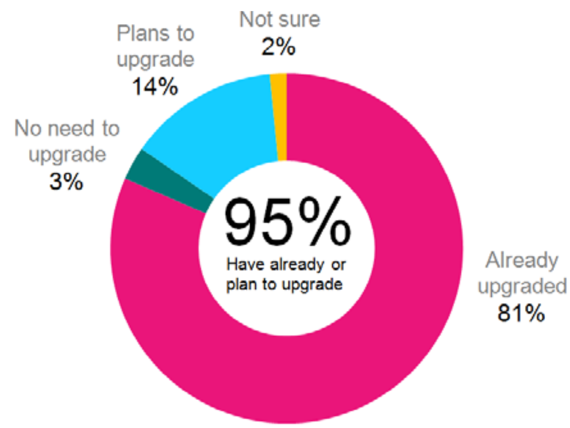
Key Findings

Providers are Preparing for an OTT Spike

For the most part, service providers are already preparing for an increase in over-the-top (OTT) services. The vast majority (81%) of survey respondents have already upgraded their networks to accommodate increased bandwidth from OTT content (see Figure 3).

This indicates that most service providers take the increase in OTT services seriously and have begun preparations for the future. This trend was consistent across provider size and region.

Figure 3: Network Upgrades for Handling Bandwidth Usage Growth



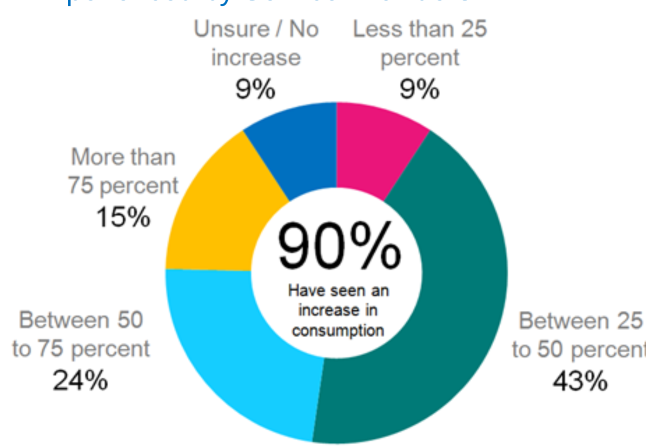
Video Dominates Bandwidth Use

Almost all providers surveyed reported some level of increase in bandwidth consumption, with few respondents reporting no increase or not knowing whether bandwidth had increased (see Figure 4).

Unsurprisingly, the providers that experienced bandwidth increases named streaming video websites as the top contributor to subscriber bandwidth usage. Nearly 70% of all survey respondents listed streaming video sites as a contributor to bandwidth increases, and this percentage was even higher (75%) for respondents who had reported bandwidth surges (see Figure 5).

This ratio remained consistent when examining larger operators (more than 1 million subscribers) and smaller providers (up to 100,000 subscribers).

Figure 4: Bandwidth Increases Experienced by Service Providers

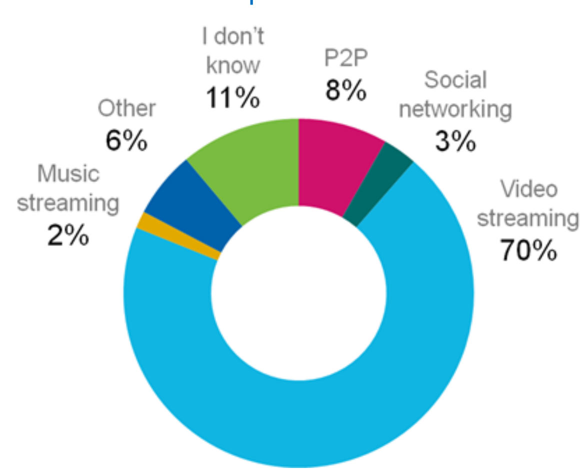


Traffic Congestion is a Major Concern

The majority of respondents agreed that visibility into network traffic congestion was important, with more than 98% naming it as either very important or somewhat important.

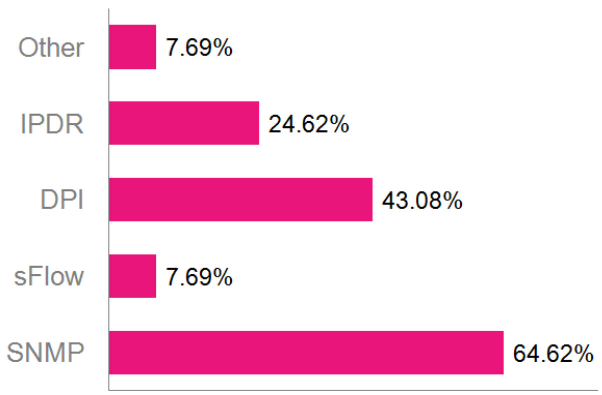
- Nearly all (86%) of the providers with more than 1 million subscribers considered traffic congestion data to be of great importance.
- This percentage was lower for smaller providers with fewer than 100,000 subscribers (68.7%)

Figure 5: Contributors to Bandwidth Consumption



Key Findings

Figure 6: Technologies Used for Understanding Network Usage



SNMP was the most popular technology for measuring network congestion (65%). This is unsurprising, given that SNMP is an established technology that is relatively simple to implement (see Figure 6).

- DPI was the next most popular technology, followed by IPDR.
- A number of other technologies received less than 10%, including sFLOW, Netflow, and MicroTic.

This trend was consistent across provider size and region.

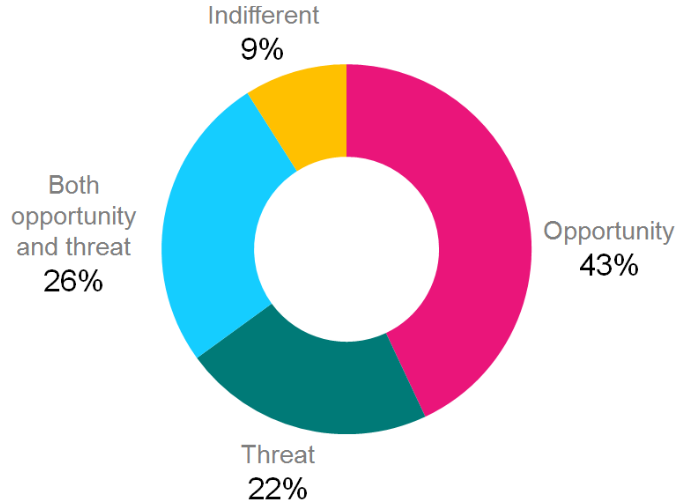
Note: Respondents were able to select more than one response

Providers are Looking for the Silver Lining

Despite the doom and gloom often reported in the media, survey respondents overwhelmingly recognized that OTT content facilitates opportunities for new partnerships, services, and revenue — even where there are also threats. Most respondents (69%) recognized at least one opportunity associated with OTT content, while at the same time, nearly half of respondents (48%) identified potential threats.

Significantly, many respondents (43%) recognized only opportunities in OTT services, compared to the smaller number of respondents that recognized only threats (22%). More than a quarter of respondents considered OTT services both a threat and opportunity, while a smaller percentage was indifferent (9%) (see Figure 7).

Figure 7: How Service Providers View OTT Content and Services

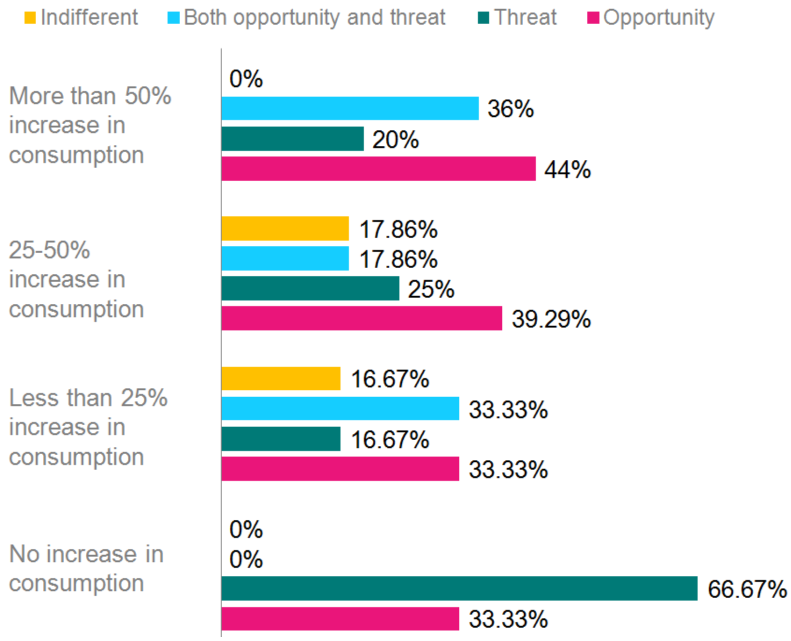


This optimistic trend was consistent across bandwidth increase usage. Interestingly, a large number of respondents who reported bandwidth increases over 50% saw only opportunities in OTT content (44%). This indicates that while OTT content affects bandwidth, providers are looking for ways to monetize the increase (see Figure 8 on the next page).

Perhaps unsurprisingly, the highest number of respondents to show indifference towards OTT services also reported low bandwidth increases.

Key Findings

Figure 8: View of OTT Content and Services by Bandwidth Consumption Growth

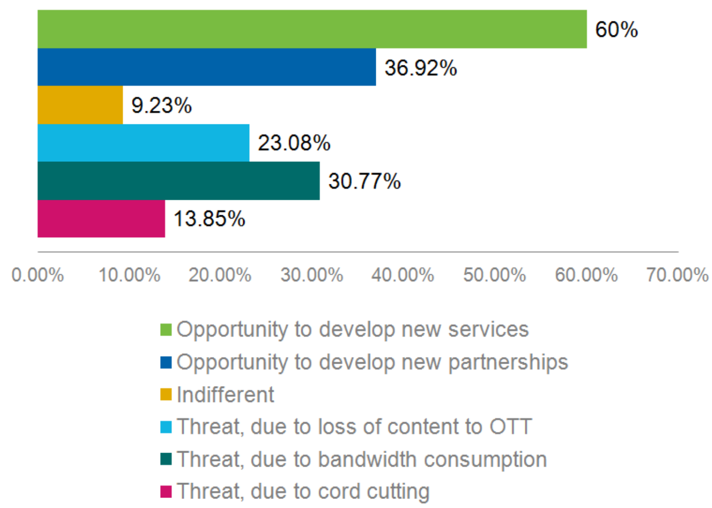


Cord Cutting is Not a Major Concern

Although it is not uncommon to read reports of "cord cutting" in the media, the vast majority (86%) of service providers surveyed did not report cord cutting as a major threat, indicating that this is not a widespread problem. Instead, more respondents felt threatened by potential bandwidth increases (31%) and content losses (23%) than cord cutting (14%) (see Figure 9).

This trend was consistent across geographic regions and when compared across provider size and bandwidth usage.

Figure 9: Global Views on OTT Services and Content

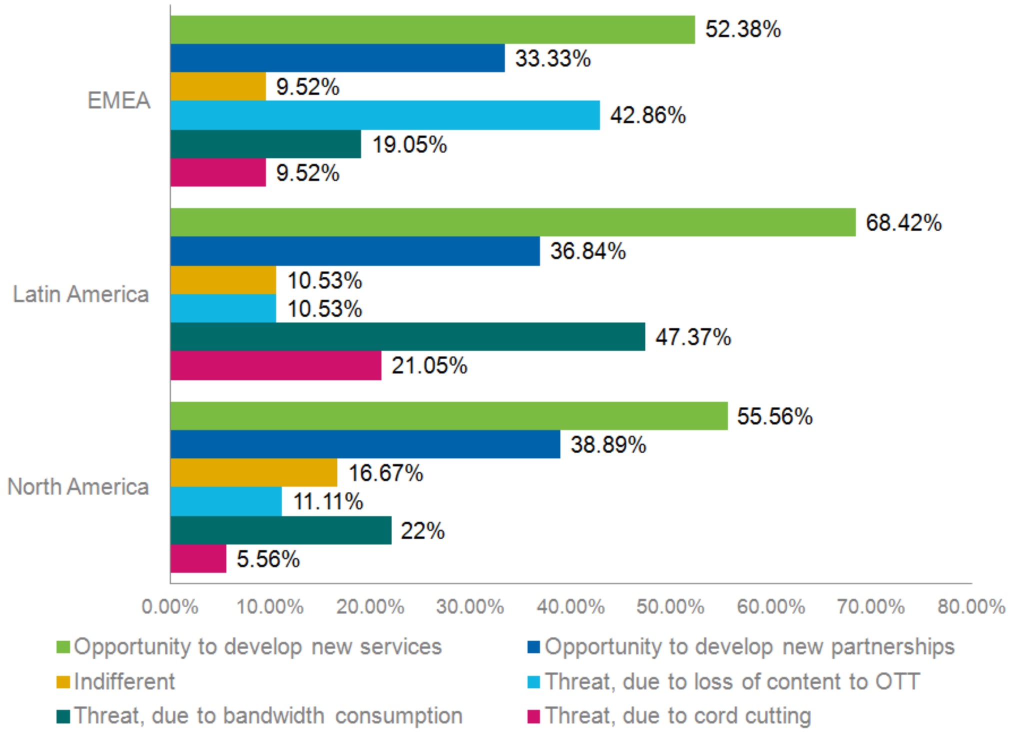


Regional Agreement on Opportunities, Disagreement on Threats

Respondents across the globe agree that OTT content presents an opportunity for the creation of new services and revenue streams; however, the similarities end there (see Figure 10 on the next page).

Key Findings

Figure 10: Regional Views on OTT Services and Content



Note: Asia Pacific results omitted due to the low number of survey respondents

Highlights of the regional differences include:

- **Latin America** was most concerned with bandwidth consumption (47%).
- **EMEA** was most concerned about losing content to OTT service providers (43%).
- **North American** respondents were concerned about high bandwidth consumption but at much lower levels (23.5%) than Latin America. North America was the most optimistic region, where operators were more likely to see OTT content as an opportunity for new services and revenue streams (56%) and develop new partnerships (39%) than a threat for any reason.
- **North America** also reported a higher level of indifference than other regions (16.7%).

Smaller Providers are More Cautious about – and Indifferent to – OTT Content

Nearly all (86%) of the larger providers surveyed (more than 1 million subscribers) saw opportunities in OTT content; however, it was a different story for smaller providers. Providers with fewer than 100,000 subscribers reported the highest level of indifference towards OTT services (nearly 16%).

- Indifference was even higher when broken down to providers with fewer than 30,000 subscribers (19%)
- Although midsize providers (100,000 to 1 million subscribers) were more likely to see only threats than smaller providers (less than 100,000 subscribers), this balance shifted for providers with fewer than 30,000 subscribers, where 29% recognized only threats in OTT content.

Key Findings

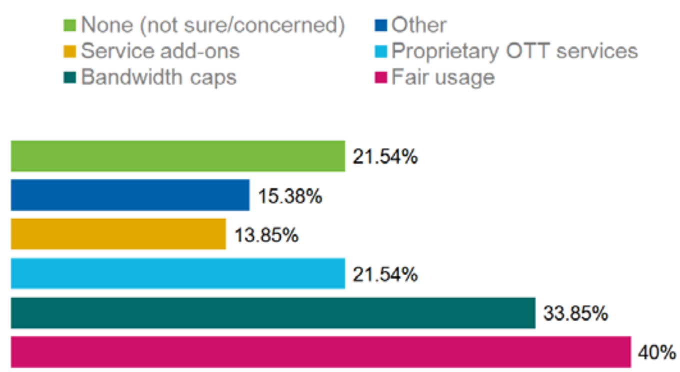
Regional Variations in Strategies to Prepare for OTT

Given the regional variations that exist between providers when it comes to viewing threats and opportunities associated with OTT services, it is unsurprising that strategies for tackling these services also differ between locations (see Figure 11 and Figure 12).

Overall

- Fair usage policies (40%) and bandwidth caps (34%) are the most popular strategies for combating OTT service usage, followed by proprietary OTT services (22%).
- Providers have been creative in their responses to the growth of OTT, with a large number (15%) of "other" responses, including caching, traffic shaping, prioritizing popular applications, offering hardware, strategic partnerships, and purchasing bandwidth.
- The vast majority of respondents acknowledge employing several of these strategies at once – indicating that there is no "one-size-fits-all" approach to properly handling the increase in OTT content.

Figure 11: Global Strategies for Tackling OTT Services

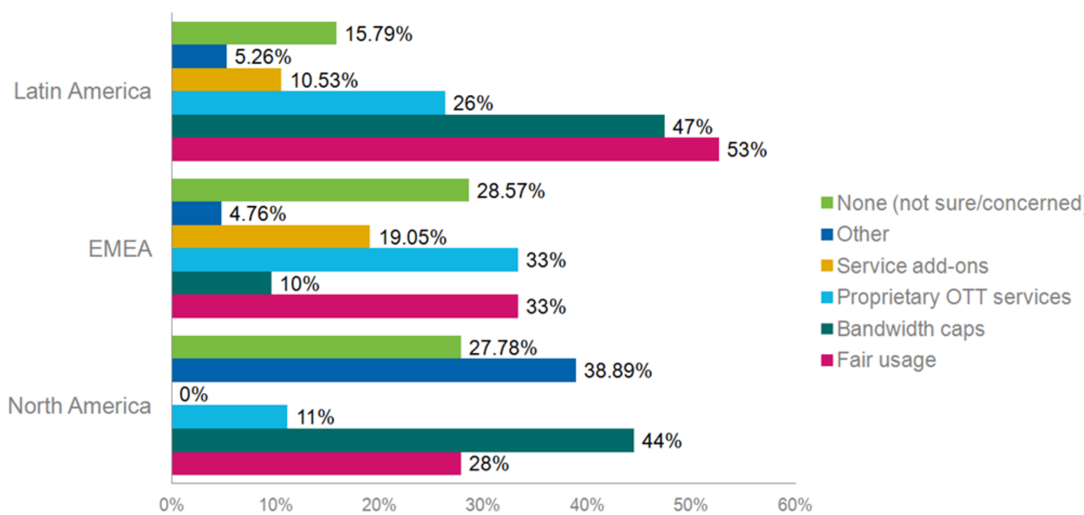


Regional Highlights

There were a number of differences between locations:

- Although the creation of proprietary OTT services was one of the most preferred strategies in Latin America (26%) and EMEA (33%), it was less popular in North America, where only 17% employed this strategy.
- More than half the respondents in Latin and North America use bandwidth caps; however, this strategy has not been widely adopted in EMEA (9.5%).

Figure 12: Regional Strategies for Tackling OTT Content



Key Findings

Many Smaller Providers are Unprepared for OTT Content

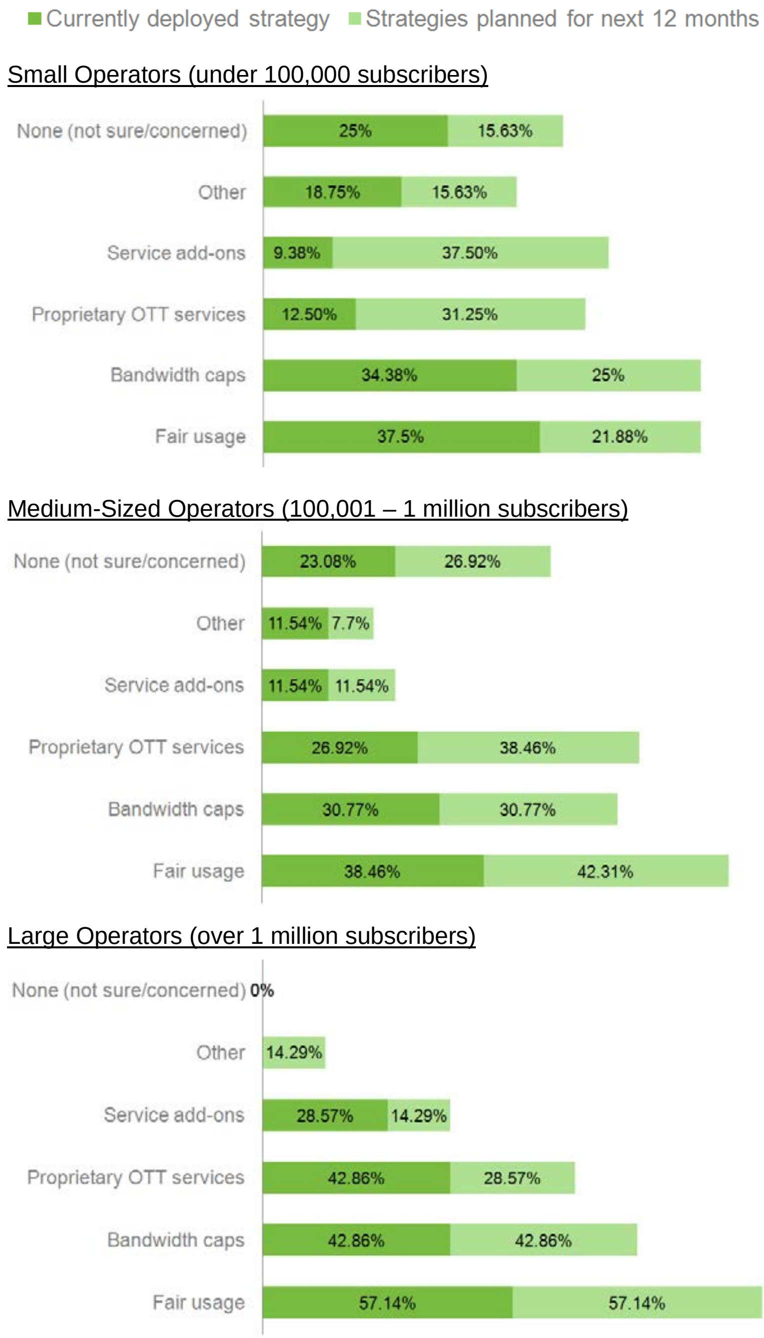
Smaller providers were less likely than other group to have implemented a strategy to combat the growth of OTT services. A quarter (25%) of respondents with fewer than 100,000 subscribers did not yet have a strategy in place for handling the popularity of OTT services (see Figure 13).

- Of the smaller providers with strategies, fair usage policies (37.5%) and bandwidth caps (34%) were the most prevalent.
- More smaller providers are considering service add-ons — such as unlimited streaming— than any other strategy (37.5%). This is a significant increase on the 10% currently offering service add-ons and highlights how smaller operators consider it a higher priority for the next 12 months than midsized and large providers (11.5% and 14% respectively).
- Fair usage was the most popular strategy for midsize and large providers (38% and 57% respectively). Interestingly, many providers with more than 1 million subscribers selected this as both a current and future strategy, indicating that fine-tuning may be required.

These patterns were fairly consistent across bandwidth increases.

- Perhaps unsurprisingly, half of the respondents with bandwidth increases of 25% or less had not yet implemented strategies to prepare for the increased consumption of OTT services.
- Conversely, a large number of respondents with bandwidth increases above 50% were interested in combating the effects of OTT content usage, with 40% considering proprietary OTT services in the future.

Figure 13: Deployed and Planned OTT Content Strategies by Operator Size



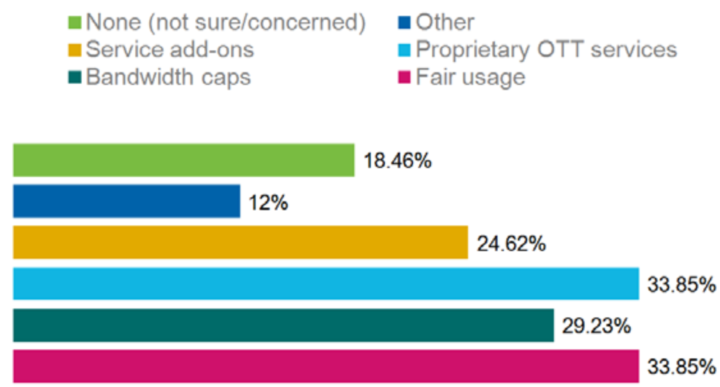
"Other" includes video caching, adding bandwidth, increasing bandwidth speeds, TV Everywhere, strategic partnerships, traffic shaping, upgrading network, CDN and peering.

Key Findings

Expect to See More Proprietary OTT and Fair Usage in the Year Ahead

Overall, small and large providers alike are considering similar strategies to tackle the growth in OTT content usage. In the future, more operators will offer proprietary OTT services and fair usage policies (34% each), while bandwidth caps (29%) and service add-ons (25%) — such as speed boosts — may also be considered (see Figure 14).

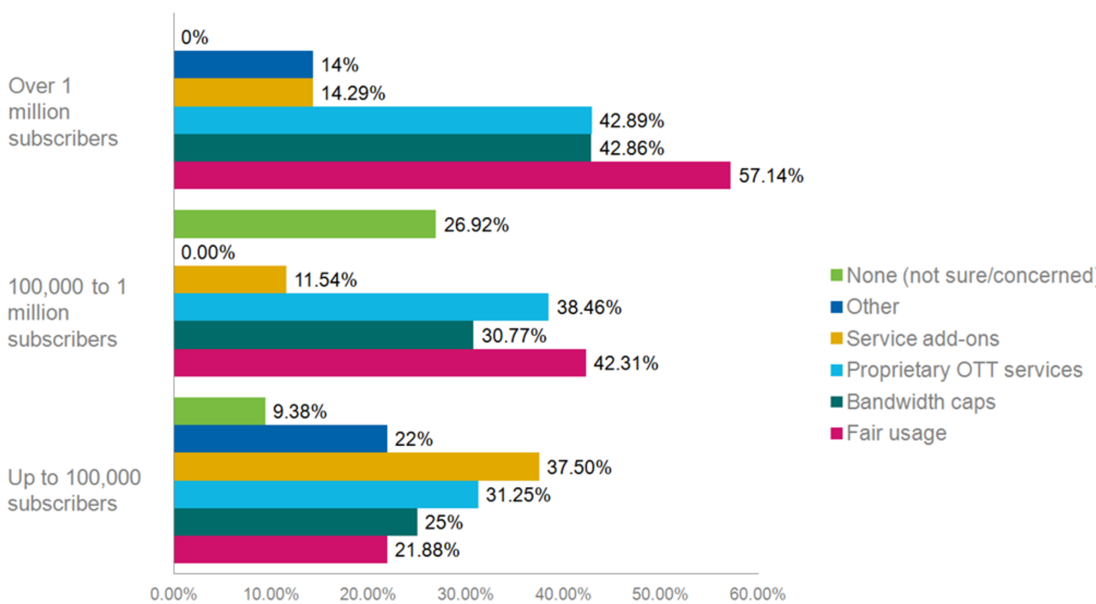
Figure 14: Global Planned Strategies for Tackling OTT Services



There were some differences between provider sizes (see Figure 15):

- In the next 12 months, service add-ons (37.5%) and proprietary OTT services (31.25%) are the most likely strategies to be considered.
- For midsize providers (100,000 to 1 million subscribers) proprietary OTT services was also the most popular strategy for the next 12 months (38%).
- Larger providers (over 1 million subscribers) bucked the trend. Service add-ons (57%) were the most popular strategy for this group, with fair usage policies the most likely strategy to be considered in the next 12 months (57%).
- A number of strategies others than those listed are currently being deployed and also under consideration. These include traffic shaping, caching, increasing bandwidth, strategic partnerships to lower costs, TV Everywhere, selling wireless modems, prioritizing high-bandwidth applications, and peering agreements.

Figure 15: Planned Strategies for Tackling OTT Services by Service Provider Size

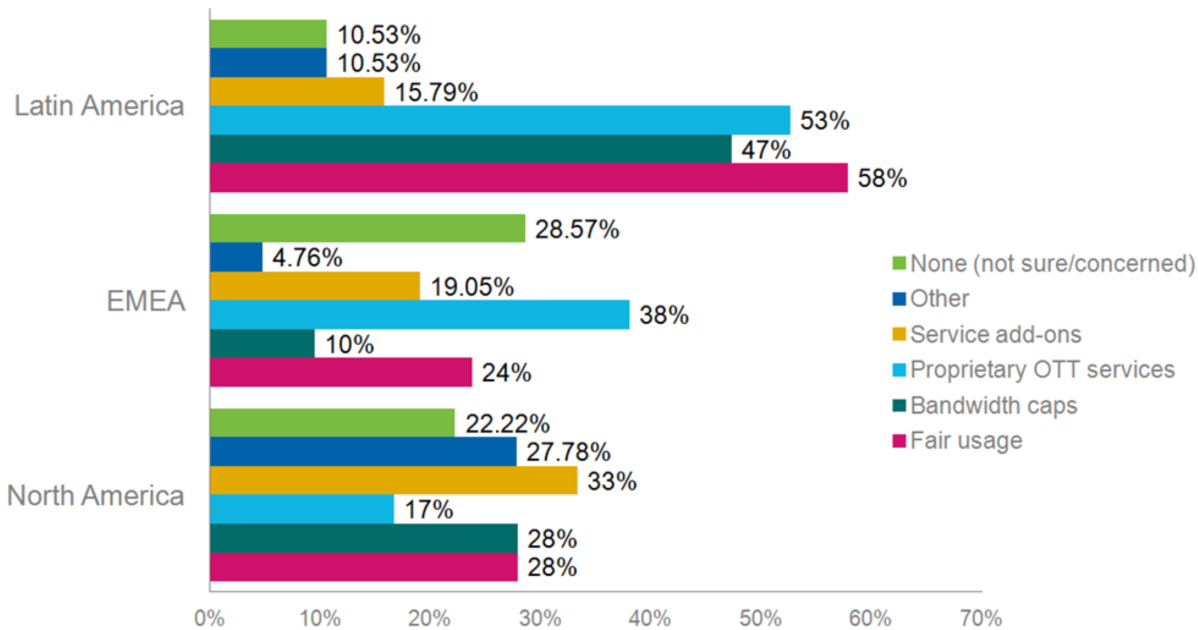


Key Findings

There were also some regional variations (see Figure 16):

- North America is planning to adopt the use of service add-ons (such as unlimited video streaming) to monetize the spike in OTT content (33%).
- More than half (58%) of Latin America providers and 38% of EMEA providers intend to create proprietary OTT services but this strategy is not being strongly considered in North America (17%).
- Fair usage policies will remain strong across all regions, indicating that further implementation is required.
- Bandwidth caps will remain unpopular in EMEA (9.5%) but there are further plans for this strategy in Latin America (47%) and North America (28%).

Figure 16: Planned Strategies for Tackling OTT Service for Region



Conclusion and Recommendations

There is no doubt that broadband providers are facing new challenges with the growing popularity of over-the-top (OTT) services; however, this does not necessarily mean the end for traditional content providers.

The Growth of OTT Content: Opportunities and Challenges for Service Providers highlighted current priorities and trends within the broadband sector. Overall, most providers have a positive outlook for the future, even while recognizing that OTT content will change the way the industry operates.

Globally, service providers are facing real challenges as a direct result of increasing OTT content. For the most part, subscribers have not jumped ship yet, and providers are more concerned about managing increased bandwidth or losing content than cord cutting. Many providers have begun implementing fair usage policies and bandwidth caps but are starting to realize the importance of offering extra value through new services or subscription options. For example, not many providers currently offer proprietary OTT services; however, this strategy topped the list of plans under consideration for the next 12 months. Likewise, the creation of service add-ons — such as unlimited streaming or faster Internet speeds — is likely to increase in the future as providers embrace new business models to remain competitive.

The time has come for smaller broadband operators to gain a better understanding of network traffic and implement plans to tackle or take advantage of the popularity of OTT content. A quarter of the smaller providers surveyed did not yet have a strategy to handle competition from OTT services. This indicates a lack of preparation, although it could also be attributed to the lower impact that OTT content has had on this sector. Even so, smaller operators should expect changes in the future, as the global OTT service market is predicted to continue to grow.

On a positive note, the majority of providers (69%) recognized at least one opportunity in the survey. Providers should look at ways to improve the subscriber experience and generate further revenue, whether it is through the creation of new initiatives like proprietary OTT services or multi-screen experiences, the development of strategic partnerships to offer new services, or the establishment of new pricing plans and/or bundles to enable better quality of experience for subscribers.

It is an exciting time in the broadband industry and change is clearly already underway — but providers will need to continue to embrace innovation to ensure a bright future.