The Rise of Over-the-Top Content: Implications for Television Advertising in a Direct-to-Consumer World

Abstract

Social media and mobility have transformed communication forever, resetting customer expectations and shaking up the business models of wireless carriers and other ecosystem players. A similar development is being seen in the media and entertainment industry. As the likes of Uber and Airbnb redefine the concept of on-demand access to services in this hyperconnected digital era, consumers want access to personalized content anytime, anywhere.

As a result, the entire media and entertainment value chain, spanning content creation, aggregation and distribution, is undergoing unprecedented changes in this direct-to-consumer (D2C) world. Spearheading this radical change are the Internet-driven, over-the-top (OTT) video platforms that deliver film and television content, bypassing the conventional distribution streams of cable and satellite TV.

Billions Up for Grabs

According to a recent PwC study[1], 78% of U.S. consumers already subscribe to at least one OTT service. And, a lot of them, particularly the millennials, are becoming 'cord-cutters' – either becoming OTT customers straightaway, or dropping their cable TV service.

The stakes could not be higher. After all, video represents the most lucrative revenue-generating segment within the media and entertainment sector, accounting for almost $420bn in subscriptions and advertising in 2015, as per PwC.[1]

OTT operators clearly have a big opportunity to significantly increase their share of the television and film entertainment market, which BCG2 pegs at around 5%, or about $25bn, currently. Plus, the OTT ecosystem's revenues, the consultancy adds, are growing by over 20% per annum, way above the meagre 2% top line growth for traditional broadcast and pay TV networks.

The Ripple Effect of OTT

OTT has empowered the consumer in a fundamentally different way. Unlike the relatively unidimensional, inflexible era of linear television, over-the-top TV now enables customers to actively interact with content. It also offers them a wide array of choices, in terms of binge watching, time shift, place shift, and navigation.

Beside resetting customer experience and expectations, OTT has also forced the incumbents to revisit some of their long-held, core business assumptions. Having initially shrugged off the competitive threat from OTT, mainstream cable and satellite TV operators, as well as broadcast networks, are increasingly rolling out their own direct-to-consumer offerings. So, anyone can now stream 'Game of Thrones' or 'Breaking Bad' over any standard Internet-enabled device, without having to subscribe to a cable provider.

Expansion of Ad-driven OTT Services

The bulk of OTT services available worldwide today are built on either advertising- or subscription-supported business models, and account for over 80% of the segment's total revenues, BCG2 estimates.

The future looks particularly promising for advertising through over-the-top TV programming, which the Diffusion Group forecast[3] would quadruple in size from $10bn in 2015 to $40bn by 2020. Several industry experts believe ad loads for TV programming rendered through broadband will grow rapidly at the expense of ad loads in linear content.

From marketers' standpoint, OTT provides an avenue to connect with the influential and lucrative millennial generation, and deliver brand messages across multiple mobile devices. Advertisers also hope to leverage this medium to gain compelling, data-based insights around evolving consumer behavior and 'buzzwords', in order to refine and revamp their engagement programs.

Advertising Complexity

Advertising on traditional TV networks has always been a cumbersome affair, involving various stages. It requires defining the spot inventory, evaluating and estimating the spot price, designing the demography reach, and estimating the viewership across target segments. Other essential phases include fixing the campaign flight schedules, defining media measurement and post-campaign reconciliation strategies, and managing invoicing and payments.

This complexity has only been accentuated in the digital era, with the onset of programmatic ad buying, ad networks and exchanges, and demand and supply side platforms impacting traditional television.

Advertising Needs to Adapt Itself to OTT

If marketers thought placing ads on mainstream linear TV networks was onerous enough, then they might need to redefine the notion of complexity when they have to deal with OTT platforms. Appreciating some of the distinct changes taking place in the OTT sphere, as compared to traditional TV, might come in handy for brand managers here.

The first major change pertains to the importance of time. Unlike conventional networks where programming and viewing are heavily related to time of the day or even the season, OTT works on a simple premise–letting customers choose whatever they want to see, whenever they want. Except for select categories such as live event broadcast, concepts like primetime, day parts, and seasonal viewership variations will become rather redundant going forward.

Second, the whole mechanism of audience measurement needs a thorough redesign. To design goal-specific campaigns for different products, advertisers and agencies have historically relied on standard media metrics such as reach, frequency, gross rating point, and target rating point (TRP) to gauge the ad performance of a network program.

However, the OTT paradigm makes things a bit complicated on this front, with data related to subscriber numbers, demographic segmentation, and content consumption patterns often inaccessible to marketers. Hence, the way TRPs for different shows are calculated might have to be significantly changed, unless all OTT providers open up their subscription and customer information through a common forum.

The third notable difference in OTT advertising is the promise of personalization and hypertargeting. Assuming the broader ecosystem can address consumer concerns over data privacy, it is now technically possible to micro segment audiences, or even uniquely tag individual customers.

Audience classification is now a multidimensional exercise, going beyond attributes such as demography and day parts to include customers' psychographs, as well as their social network influences and spend behavior. In fact, some OTT operators are already experimenting with dynamic ad insertion, which allows ads to be swapped over show breaks for an individual consumer.

Fourth, OTT platforms can now facilitate ad spot multi sale, unlike their traditional TV counterparts. Mainstream networks and distributors can sell an ad spot during the airing of a show to only one advertiser, primarily because broadcasting of that content is a time bound phenomenon. But OTT operators, with facilities such as video on-demand and catch-up services, can fill the same ad breaks with different marketing campaigns.

Finally, OTT television could very well embrace new types of advertising models from other segments of the digital world. While TV ad measurement and pricing has largely been centred on metrics linked to impact or impressions, OTT operators are likely to adopt other metrics such as user interactions, leads, and acquisitions.

Conclusion

In an excessively competitive business environment that exists today, gaining consumer attention is the holy grail for marketers. And, with over-the-top television helping consumers access their favourite content on demand, advertisers need to reimagine their customer outreach strategies.

OTT advertising is still in a nascent stage, and has a long way to go before developing into a mature area. In all probability, it would be underpinned by some of the fundamental traditional television advertising practices, while incorporating the emerging dimensions of media measurement across discrete multichannel platforms.

Relevance, both on the content and advertising fronts, is the true currency that will drive consumer attention in the future. Therefore, OTT operators need to work in tandem with marketers to experiment, iterate, and refine their ad rendering capabilities for better outcomes.

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