OTT
SECRETS
EXPOSED

THE REAL COSTS OF OTT

What you need to know before you launch

A **vimeo** RESOURCE

INTRODUCTION

Launching an over-the-top (OTT) video service is a huge opportunity for content creators and media companies to expand their business through the next generation of content delivery. But creating an OTT network can be a complicated and expensive process. Established industry players raise millions in funding to set up and operate their own networks, often opting to build solutions in-house. Mistakes can be costly and the possibility of a volatile return on investment may scare away small or medium-sized companies who are perfectly positioned for OTT. Others believe that cobbling together a custom solution that leverages multiple vendors can save on expenses.

Unfortunately, this piecemeal strategy for OTT is usually more expensive. There are significant upfront costs, especially for media companies looking to move into the technology space. The primary cost comes from acquiring an entirely different area of expertise: It's expensive to hire knowledgeable developers or, alternatively, to make years of mistakes. The more you spend on recreating a technology stack, the less you can spend on marketing and content — the things that contribute directly to growth.

The future health of an OTT service depends on the cost to set up, manage, and support both the content and the customers. To be successful, every service needs to consider the challenges of each element of their technology solution:

CHALLENGES

Vimeo provides an end-to-end technology solution to over 500 active OTT networks. This report leverages Vimeo data to give insights about each element of a complete OTT technology backbone.
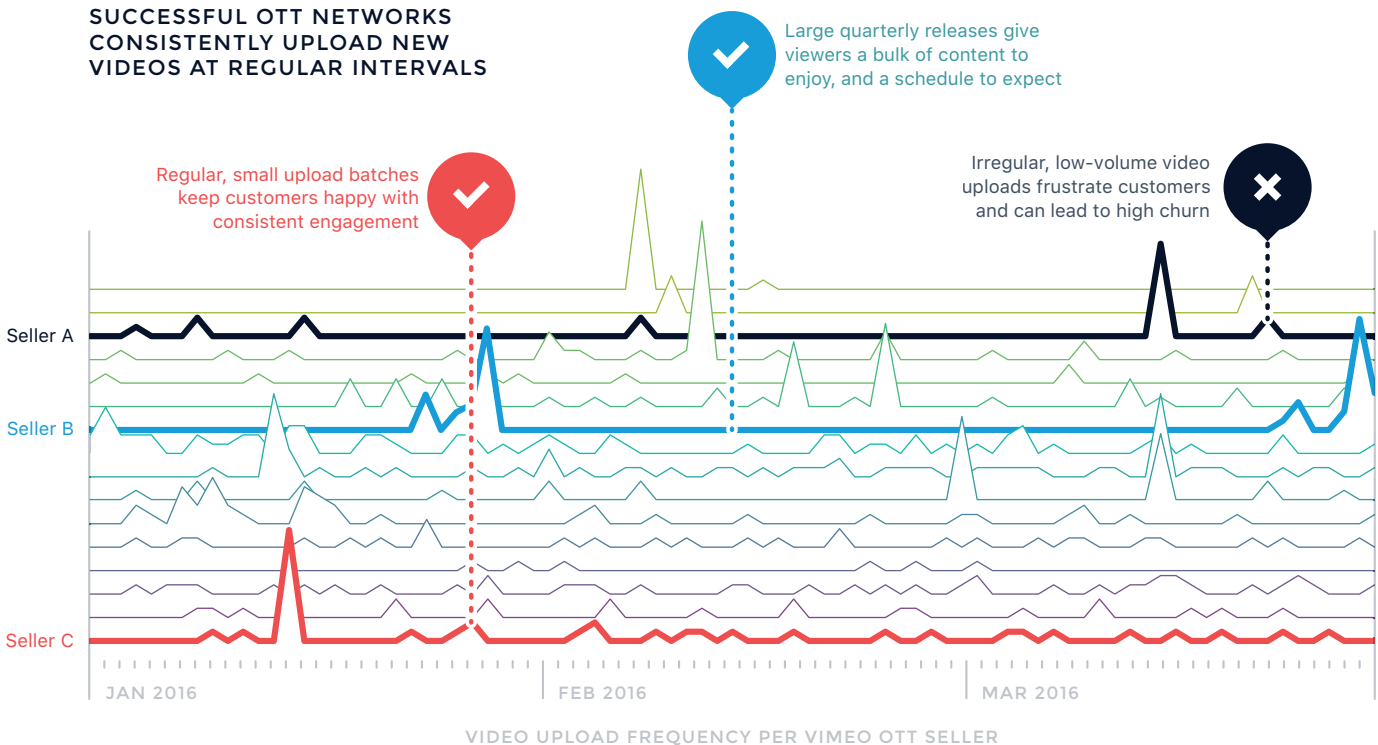
CONTENT MANAGEMENT SYSTEMS

The success of an OTT network is dependent on consistently adding new, engaging content that keeps an audience willing to pay each month. Because of this, you need a comprehensive Content Management System (CMS) where administrators can assemble, organize, and edit content quickly and thoroughly. The ability to cleanly manage collections of videos and their unique metadata helps you create an accessible system for viewers. This also improves your content's discoverability through tools on the web, such as search engine optimization and landing page calls to action.

Moreover, once content is uploaded, it must be transcoded to ensure best-in-class delivery to the customer through any supported platform. Each of these transcoded versions ties to a specific device and quality standard. Automating this process is essential for managing the ever-expanding library of video content in a subscription service. For instance, using

Vimeo's industry-leading transcoding architecture creates upwards of ten distinct files for each video uploaded, all managed internally without the need for manual interaction.

The average OTT network powered by Vimeo uploads between 5 and 25 new videos per month, with each video averaging about 22 minutes. When you're uploading that much content every month, you need a CMS that is easy to use and automatically connects to every other element of your stack — your content delivery network (CDN), video player, and analytics systems. Whether you're using a local file-based storage system, a networked solution, or satellite retransmission, it's imperative that a CMS platform is part of a cohesive experience between these environments. Otherwise, your service will have difficulty rolling out future features and improvements, resulting in a degraded experience for the viewer and increasing their likelihood of churn.

SUCCESSFUL OTT NETWORKS CONSISTENTLY UPLOAD NEW VIDEOS AT REGULAR INTERVALS

Large quarterly releases give viewers a bulk of content to enjoy, and a schedule to expect

Regular, small upload batches keep customers happy with consistent engagement

Irregular, low-volume video uploads frustrate customers and can lead to high churn

Seller A

Seller B

Seller C

JAN 2016   FEB 2016   MAR 2016

VIDEO UPLOAD FREQUENCY PER VIMEO OTT SELLER
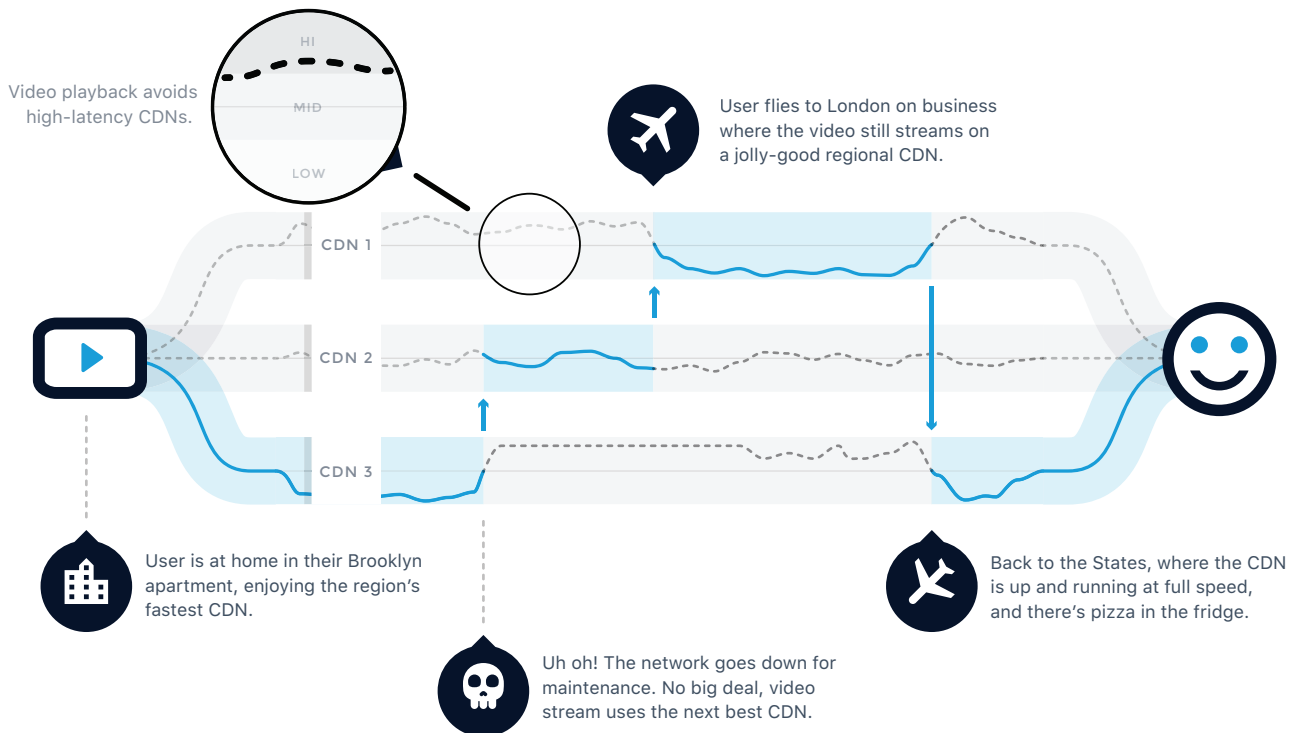
CONTENT DELIVERY NETWORKS

With the increasing presence of mobile viewing, the strength of a viewer's internet connection has never been more variable, as they can bounce from a mobile network to a wireless network and back again in a matter of minutes. Viewers expect content to be available at the same quality no matter the scenario, and a successful OTT service must be prepared with a robust content delivery network solution.

By leveraging Vimeo's massive video-streaming offering, we are able to provide bandwidth at a lower cost than an independent producer could obtain on their own. An independent OTT network using Amazon Web Services, for instance, would see bandwidth costs alone at around 8.5 cents per GB for
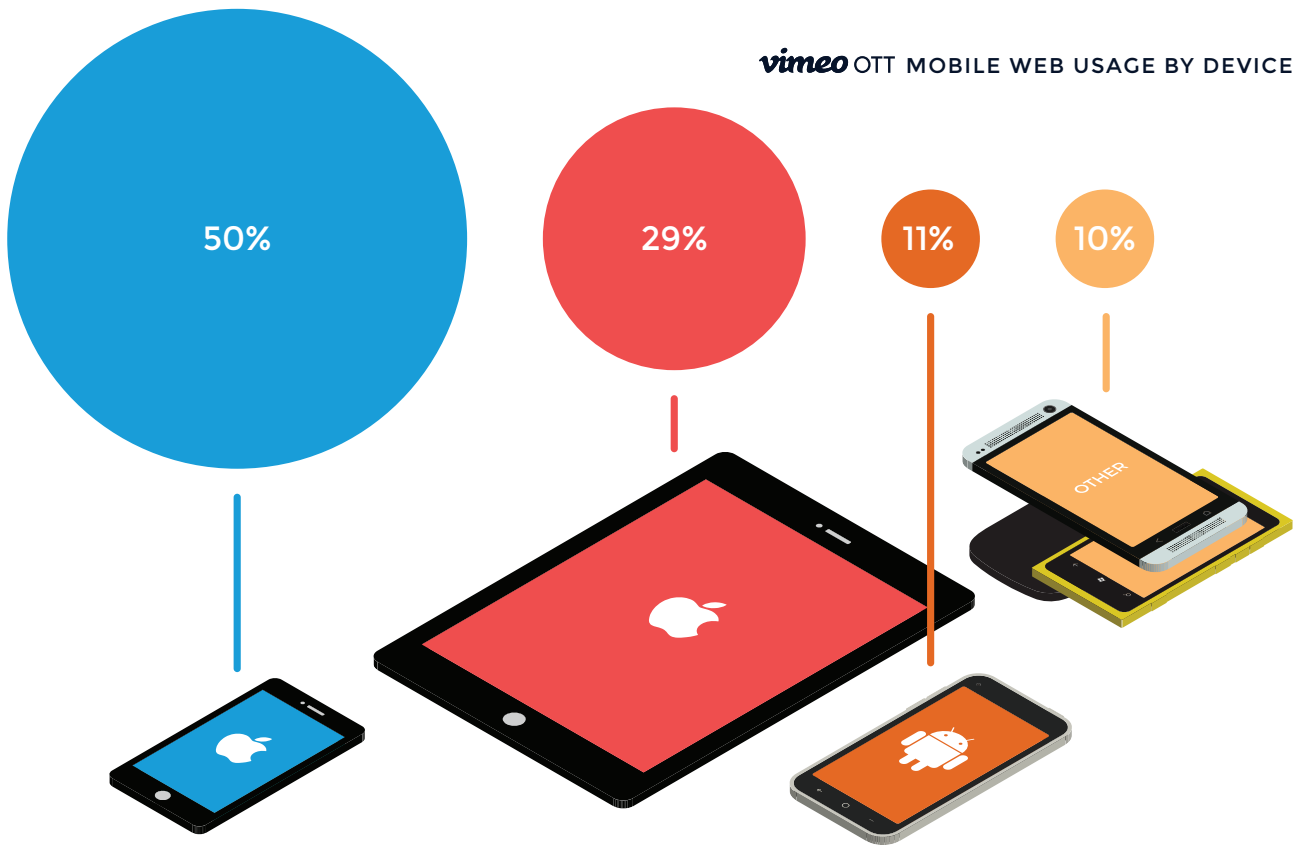
U.S. and European delivery, which is a total cost of 35 cents per user per month. Since this doesn't include storage, development, design, content production, or any of the numerous other expenses a network will incur, it is important to reduce this cost as much as possible.

A reliable OTT network will not only leverage the best CDNs, but will understand that the optimal CDN may change depending on the user's network and location. Vimeo dynamically allocates traffic between three separate CDNs to effectively reach audiences everywhere in the world with the speed and consistency that customers demand.

THE JOURNEY OF A SMART VIDEO FEED

Video playback avoids high-latency CDNs.

HI

MID

LOW

CDN 1

CDN 2

CDN 3

User flies to London on business where the video still streams on a jolly-good regional CDN.

User is at home in their Brooklyn apartment, enjoying the region's fastest CDN.

Uh oh! The network goes down for maintenance. No big deal, video stream uses the next best CDN.

Back to the States, where the CDN is up and running at full speed, and there's pizza in the fridge.

vimeo OTT MOBILE WEB USAGE BY DEVICE

50%

29%

11%

10%

OTHER

VIEWER EXPERIENCE

Audiences expect a Netflix-quality viewing experience regardless of the architecture or budget used to build it. This means an OTT service should not only offer high-definition display, but also adaptive streaming, so that viewers have a great experience across web and mobile web — even with a variable connection. These considerations, plus digital rights management, make up several moving pieces that need to be managed simultaneously across devices. And multi-device support is key: Vimeo sees 50%, of is video traffic from the mobile web and connected devices. Mobile web usage ranges from iOS devices to browsers on gaming devices like Xbox and PlayStation (see chart).

A video player that works brilliantly everywhere is part of that equation. Getting an audience to experiment with an OTT service is hard enough, costing marketing dollars on top of promotional tactics like free trials. Converting those users from free to paid subscribers relies heavily on the quality of the playing environment. An integrated video experience speaks well of the quality of your service, but also of your brand.

For some OTT networks, the consumer experience stops at the video player, which falls short of a real opportunity to engage with customers. The make-or-break opportunities for a comprehensive player come from added features like continuous playback across devices, moderated comments, and easy access to subtitles for international audiences — all key for keeping your audience around. For example, the top Vimeo-powered OTT networks average tens of thousands of comments across their videos, which translates into the one key feature that keeps viewers coming back: community.

PAYMENT PROCESSING

To maximize audience growth, a network needs to accept payment simply, securely, and globally. This means balancing the cost of a payment provider with its feature set, and deciding which features you really need.

Managing payment failures is one major task of a good payment provider. Once a customer is acquired, it is incredibly important to prevent involuntary churn due to payment issues. When failure rates do spike, it is essential to utilize a payment processor to make timely and focused adjustments in order to avoid abnormal churn. This could mean retrying cards automatically, reaching out to banks to update information on behalf of your customers, or messaging them directly regarding the billing issue before they churn.

Vimeo OTT utilizes Stripe as our payment provider and has seen our successful payment rate as high as 93%, which fits squarely in the projections offered by Recurly, a company specializing in recurring

payments. For each failed payment, we also provide access to the cause, whether it's card cancellation, lack of funds, or fraud. For processing credit cards, we have negotiated a deal of 2.5% plus a fixed 30 cents per transaction, considerably lower than a new network would be able to negotiate on their own.

It is also essential that OTT networks with apps include options for native purchasing through mobile devices and connected TV services (i.e., iOS, Android, and Roku). Customers are accustomed to paying for goods and services with saved accounts in these marketplaces, thus reducing the friction to purchase and increasing conversion rates. Apple and Google also provide their own robust tools to reduce churn by alerting users when their stored payment options are out of date. Integrating your payment processing with this kind of native purchase environment will increase customer lifetime value and help you build your OTT business as your apps grow.

DESIGN AND DEVELOPMENT

After determining each of the essential technology components of an OTT network's architecture, it is important to build a system that seamlessly connects them all for your audience. Any friction a customer feels in the process, from subscribing to watching, is a reason for them to churn. This doesn't just stop once you launch: Investing in the ongoing design and development of your service is key.

It is also important that your OTT network's landing and marketing pages on the web are optimized to accentuate the product offering and increase conversions. Designers should keep both aspects in mind at all times, with additional consideration and time allowed for split testing and optimizing each page as the service grows.

The Vimeo OTT development team averages 11 new features and 72 defects closed per month, automatically effective for all OTT networks. This not only improves the stability of our product but creates a signal of quality for each of the customers of the OTT networks using our platform. If you are hiring a development team or contracting a company that provides these services, make sure they are capable of reporting on these kinds of updates, as well as living up to the high standards required for online video distribution.

APPS AND CONNECTED DEVICES

Apps for smartphones and connected devices are now what websites used to be: requirements for growth. Building an OTT network without a quality, native, branded app limits the audience's experience and severely hampers the ability to grow that audience through additional platforms. Looking at networks powered by Vimeo OTT technology, we see that 35% of audiences use a native app, and of those, 30% use multiple apps across devices. Industry-wide, 28% of OTT customers indicate that the ability to watch on a tablet is a reason for using the service, and 21% indicate the same for smartphones, [based on a 2015 study by Digitalsmiths](). These customers rated convenience as their primary reason for using an OTT service, certainly a factor for a service that is ubiquitously available across devices.

Several considerations play into the decision to create apps: development time, expense, and management of the apps for each platform. Much like hiring an agency or building a development team for your web-based service, creating these apps can be expensive, as many potential partners will charge huge recurring monthly fees for maintenance on top of their initial development cost. Building out a dedicated development team incurs huge long term costs and focuses an OTT network on technology management rather than producing compelling content — the latter of which is the lifeblood of a thriving subscription-based video business.

ANALYTICS

Launching an OTT network is the beginning of a larger business proposition, one whose value can only be judged by a complete understanding of the metrics that define a successful subscription-based product. Key variables like "Average Revenue Per User" and "Lifetime Value of a Customer" must be tracked and optimized to make the venture profitable. Moreover, understanding user behavior to predict churn, bandwidth usage, and content preferences is the essential competency of a successful platform.

Specifically, the ability to define cohorts of users based on date of signup, platform, and engagement can allow networks to evaluate the success of marketing efforts and determine the best way to gain users that have higher overall lifetime value. This data can also allow for predictive analytics around churn, surfacing users who are likely to unsubscribe and taking action to retain them before they leave. Holistic analytics are the best catalyst for profitability in an industry that requires being one step ahead of user behavior.

Capturing this data is not trivial, as it involves building the analytics directly into the platform from the design stage and iterating on that work as your business grows. This means additions to both payment processing as well as the video player and network layer. The proper instrumentation of data analytics will be either additional development time or an expense from leveraging third-party software, in addition to actionable analysis and turning insights into focused tasks for the development team.

KEY VARIABLES FOR ANALYZING AN OTT SERVICE

GROWTH

The gross increase in percent of subscribers from the beginning of the period until now. (If you started March with 100 subscribers and added 50 new subscribers that month, you had a growth rate of 50%.)

CHURN

The number of customers who unsubscribe within a time period, as compared to the number at the beginning of the time period. (If you started March with 100 subscribers and 5 people unsubscribed in that month, your March churn rate was 5%.)

LIFETIME VALUE (LTV)

A prediction of the net profit attributed to the entire future relationship with a customer. In the case of subscription video, this value is generally the Average Value of a Subscription x Number of Months Subscribed. This can vary with the use of promos, free trials, and yearly subscriptions.

AVERAGE REVENUE PER USER (ARPU)

The total revenue divided by the number of subscribers.

vimeo OTT CUSTOMER SERVICE RESPONSE TIME

< 15 MINS				15-30 MINS	30-60 MINS	1-2 HRS	2-3 HRS	3-6 HRS

1:51
AVERAGE
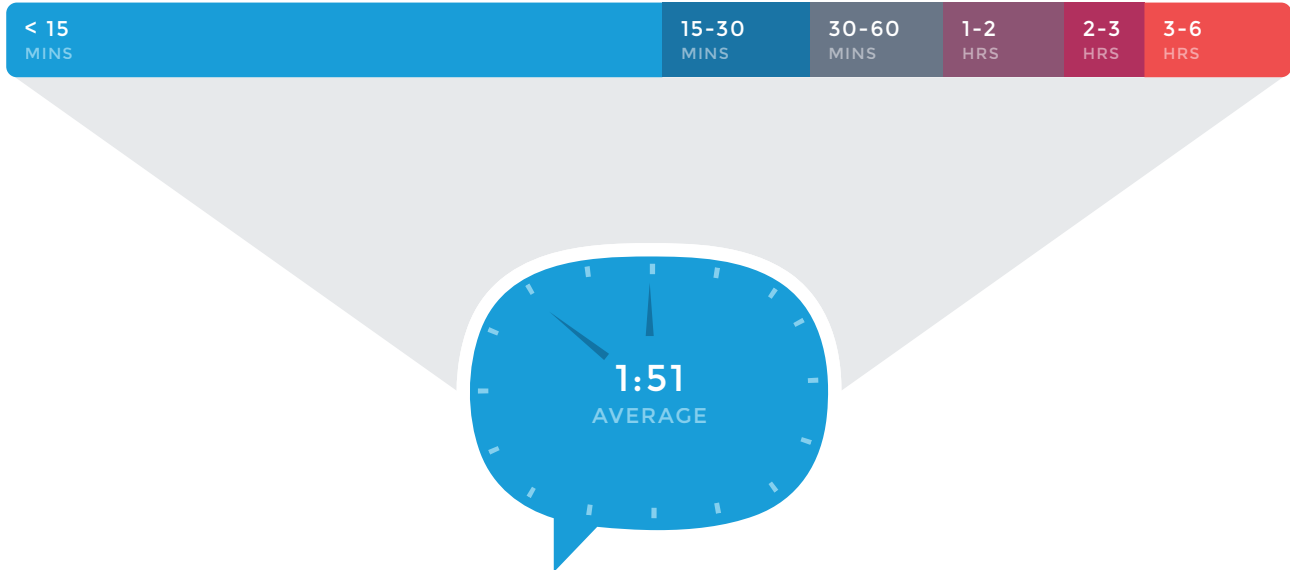
CUSTOMER SUPPORT AND SELLER SUCCESS

An OTT network cannot be successful without the customers who make up its audience, yet often customer support is outsourced or neglected as a cost saving measure. Poor customer support leads to higher churn and therefore a lower customer lifetime value, which in turn means a lower value for the network itself. The investment in development and marketing is wasted if a user leaves due to the frustrations around a lack of customer service.

Customer support is also the last chance to turn a cancelling user into one that stays around through the use of discounts and other tactics. Managing this relationship over their lifetime of experiences with the service is paramount not only to reduce churn but to grow through recommendation and word of mouth. Viewers are also your best source of anecdotal insight into what content is working, and can provide guidance for the content production and acquisition processes.

For a sense of the value of customer support to both an OTT network and its audience, look at Vimeo. We handle thousands of customer support cases on behalf of our sellers each month. It is our responsibility to ensure users are taken care of quickly and effectively — 60% of users are taken care of in under 15 minutes, and 90% of support cases are resolved in less than 3 hours. For 150 cases per week, those 15 minutes add up to about 38 hours a week, which is another full-time employee on your payroll needed to provide the optimal level of service and a comprehensive help desk. We also provide a full suite of support guides, which are constantly growing as new features are added to the product. This reduces both the need to contact support and the time to get the customer a solution.

NEXT STEPS

Building an OTT network from the ground up is complicated. You must consider how to create an effective content library and release strategy, as well as a marketing plan and distribution across devices. Adding the development of an entire technology platform to these requirements increases the difficulty to herculean levels and delays any future realized returns on investment. Combine that with the need for quick, responsive iterations on features and apps, and the technical debt of a homegrown solution can be insurmountable.

TECHNOLOGY

	DIY ESTIMATE	vimeo
CONTENT MANAGEMENT SYSTEMS	$5,000 - $10,000	INCLUDED
CONTENT DELIVERY NETWORKS	$0.35 / PERSON / MONTH 42,000	INCLUDED
VIEWER EXPERIENCE	$2,000	INCLUDED
PAYMENT PROCESSING	3% + 30c 54,000	2.5% + 30c
DESIGN AND DEVELOPMENT	$75,000 - $100,000	INCLUDED
APPS AND CONNECTED DEVICES	$50,000 / YEAR	$10,000 / YEAR
ANALYTICS	$10,000 - $50,000	INCLUDED
CUSTOMER SUPPORT	$70,000	INCLUDED

GROSS REVENUE 10,000 MONTHLY $5 SUBSCRIBERS	$500,000	$500,000
COSTS	$308,000 - $378,000	$181,000
NET REVENUE	**122,000 - $192,000**	**$319,000**

This is why we created the Vimeo OTT platform, a scalable solution for enterprise-level subscription video services. We package all levels of the technology and support stack into a single product that will get you to market quickly, helping offload the upfront costs of creating an OTT network, and putting starting capital to work in smarter ways.

To explore how we can help you grow your OTT business, contact us at ottsales@vimeo.com.

Vimeo OTT is a technology platform created for anyone who wants to build a video business and provides an end-to-end technology solution that enables businesses, big and small, to sell content directly to their audience from their own websites and apps. Vimeo sellers get total control of their content, distribution, and customer data, so they can market effectively to their audience, scale quickly, and keep more revenue.