



# TVE vs. OTT - Are You Ready for a Throwdown?

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In Front of **the Curve™**

*TVE vs. OTT —  
Are You Ready for a Throwdown?*

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**A Market dBrief™**

# TVE vs. OTT – Are You Ready for a Throwdown?

A TDG Market dBrief™

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This Market dBrief™ draws its data from TDG’s new report:

### **Broadband-Enabled TV: Rise of the OTT Provider**

This report analyzes the market conditions of Internet-based video services, identifies key market trends and predicts likely market developments for the period 2009 through 2014.

For more information or to purchase this report, please contact us at [sales@tdgresearch.com](mailto:sales@tdgresearch.com) or 469.287.8050.

## 1.0 Introduction

For those who keep up with the day-to-day business of digital video, these are interesting times. With the arrival of broadband connectivity to the TV, a host of new Internet-based video services are coming to the living room TV. TDG refers to these as “Over-the-Top” or “OTT” video services. Concomitantly, incumbent PayTV operators are looking to exploit this same pervasive Internet connectivity to push their high-value programming beyond the TV to consumer PCs and mobile devices. This initiative is known as “TV Everywhere.”

An intriguing irony in all of this is that PayTV operators such as Comcast and Verizon own the broadband networks over which competitive OTT broadband TV services will arrive. Such control gives rise to issues concerning net neutrality, the question being whether network owners that also sell their own TV services will grant competitors equal footing when it comes to network access, or whether the federal government should intervene in the market to ensure truly open access to all comers.

As these two models collide, it is worth pondering whether incumbent operators will be able to push their subscription PayTV services “everywhere,” or OTT providers will end up taking over TV-based viewing. Yes, most would agree that the outcome will likely be some combination of the two models, one of a variety of hybrid models that both incumbent and competitive operators will likely employ.

While there is no consensus as to how this market battle will play out, there is no doubt that battle lines are being drawn and that the consumer video landscape is about to be redefined. Are you ready for a throwdown?

## 2.0 TV Everywhere (TVE)

### 2.1 Concept Overview

“TV Everywhere” or “TVE” is an umbrella term used to describe efforts by PayTV operators to make their exclusive TV programming—previously accessible only on the TV and by subscription—available online so that it can be accessed by subscribers on any Internet-connected device. Generally, this content will be available free as an “entitlement” to their current PayTV subscribers (their language, not ours). Those who do not subscribe to an operator’s PayTV services will simply not be able to access the content (at least as currently conceived). Operators are investing a great deal of energy in creating an online fortress, a “walled garden” within which their (authenticated) PayTV subscribers can enjoy TV-to-Internet content and behind which cable networks such as Discovery, Disney, and Viacom feel comfortable making their content available.

TV Everywhere is an attempt to extend PayTV’s presence into the world of quantum media; an über-connected world in which access is not fixed to a particular network, device, or context but touches multiple points of presence, be they fixed or mobile. This vision has proven enticing to a number of incumbent PayTV operators including:

- Time Warner Cable (first came up with the term and who is the primary driver behind the TVE effort);
- Comcast (has long been working on a separate effort but continues to make joint announcements with Time Warner Cable);
- DirecTV (currently in discussion with programmers for its own service, though there is little evidence the company is cooperating with Time Warner or Comcast);
- Verizon (announced on August 27, 2009 that it will be a TVE partner); and
- AT&T (though yet to formally announce its involvement in the TVE initiative, it is participating and has launched a beta service for U-verse subscribers called “AT&T Entertainment” which features a lot of Hulu content).

So much for a brief summary of what a TVE service could look like. The primary question facing operators is whether consumers find this type of multi-screen TV offering sufficiently compelling.

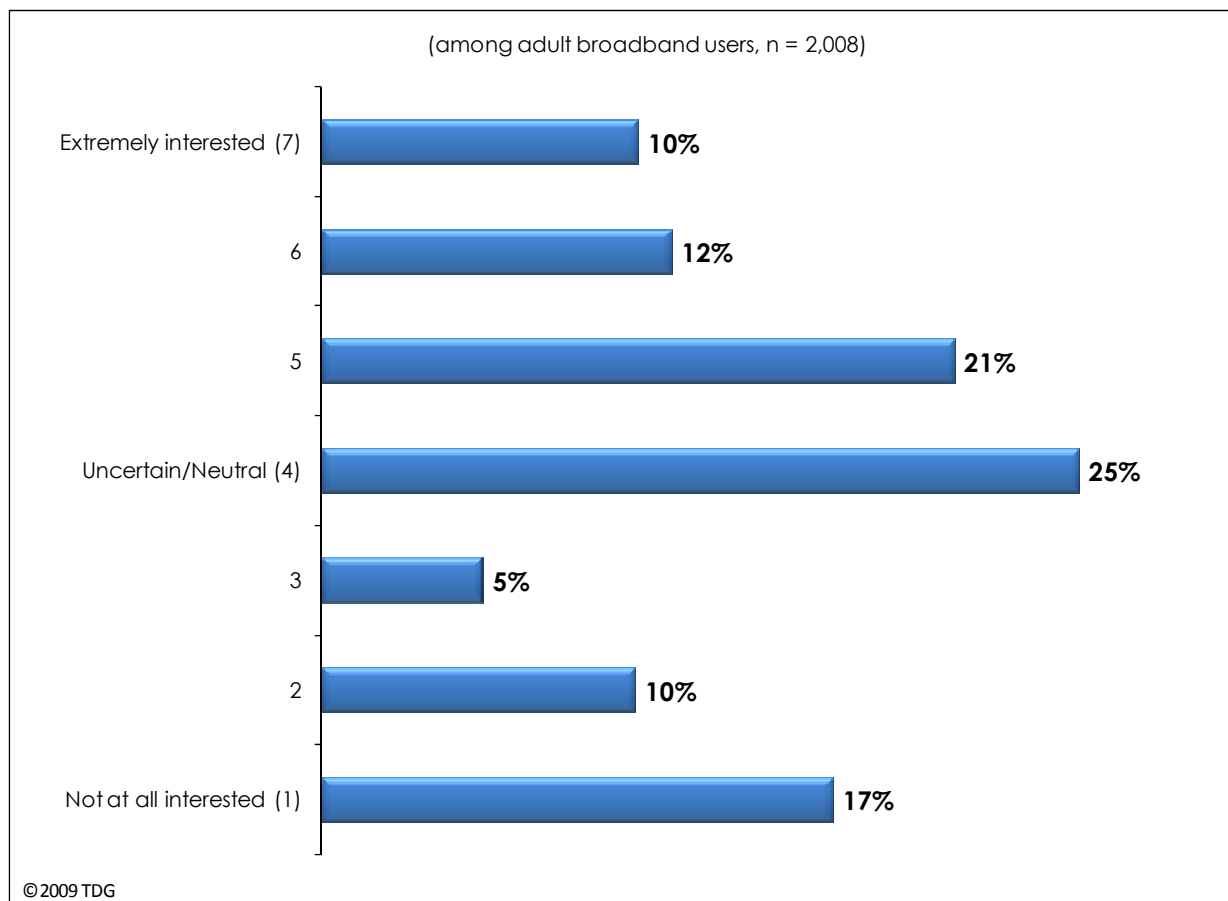
## 2.2 Consumer Interest in a TV Everywhere-type Service

In December 2008, TDG fielded a very unique primary consumer project to evaluate a variety of “new video” services, including a TV-to-PC two-screen video service that offers the same content and features consumers now enjoy from their PayTV services. The specific characterization of this new service was as follows:

*“Imagine that the same TV programs you currently view on your TV could also be enjoyed on your PCs – as long as your PC is connected to the Internet, you would be able to watch all your home TV programming on all of your PCs – desktop and notebook – regardless of time or location.”*

Respondents were then asked of their interest in such a service. Survey results are summarized below.

**Figure 1 – Interest in TV-to-PC Video Services**



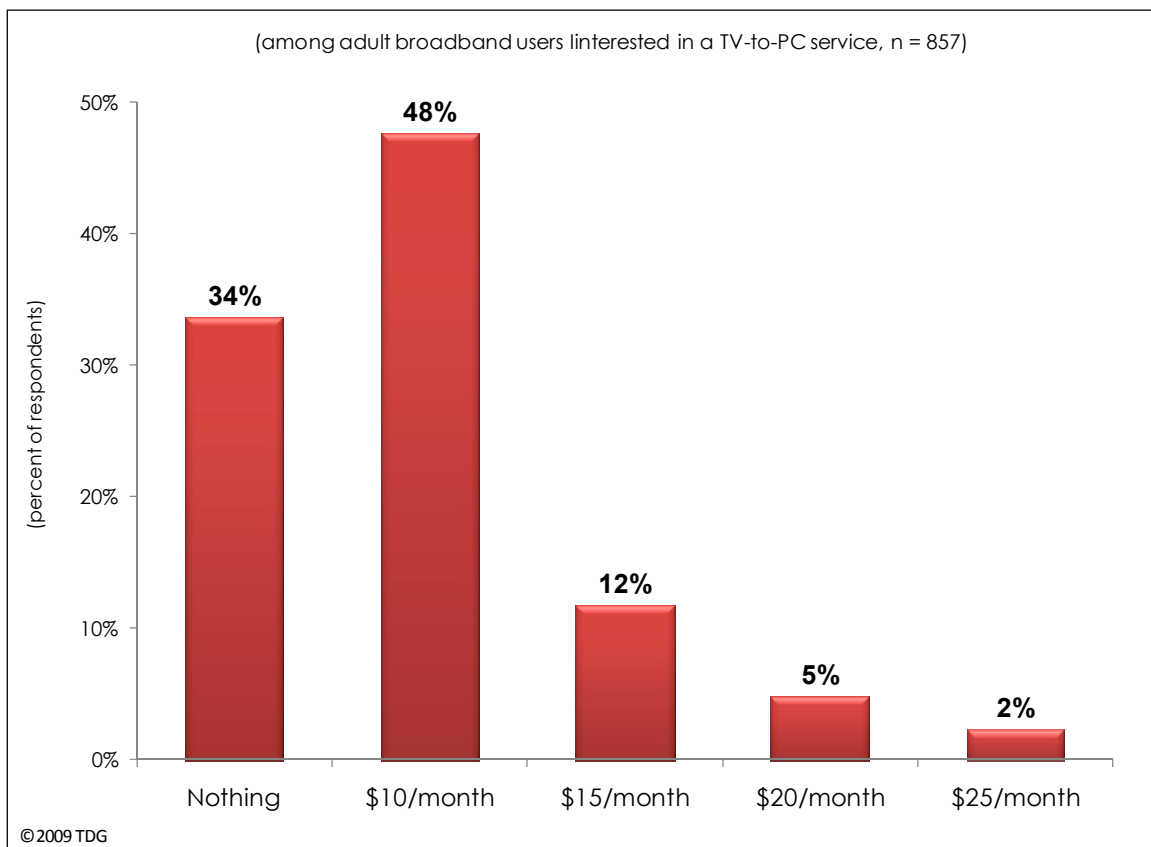
As illustrated, 43% of adult broadband users are interested in a TV-to-PC video service. Interestingly, though total interest varies by age (with younger consumers being more interested), a sizeable percentage of each age group consider the service compelling. For example, 56% of those between the ages of 18 and 24 are to varying degrees interested in a TV-to-PC service – a very strong indicator of service appeal among this age segment. At the same time, however, 35% of 45-54 year olds are also interested in such services – this is nothing to sneeze at.

Those interested in this TVE service were then asked how much they would be willing to pay for it, specifically:

*“What is the maximum amount you would pay per month for this type of TV-to-PC service? Again, we’d all like it to be free but we’re interested in what you think this service would be worth.”*

Survey responses are summarized below.

**Figure 2 – Price Consumers Would Pay for a TV-to-PC Service**



Of the 43% of adult broadband users interested in this TV/PC service, two-thirds would pay \$10 or more this service. Why, then, are most service providers planning to make



these services available for free to their PayTV subscribers? Are operators undervaluing the benefits of second-screen access to TV services, access for which most consumers would pay? According to TDG's research, this is indeed the case. A persuasive argument can be made that such a strategy will result in leaving significant money on the table.<sup>1</sup>

So how much money are we talking? Assume that this TV-to-PC service was available to all digital TV subscribers in the U.S. for a flat charge of \$9.95 per month. Further, assume that cable providers are able to achieve 17% service penetration over a 5-year period (not at all unreasonable given primary data and current trends). This combination would yield approximately \$1.1 billion in revenue in the fifth year of deployment. This is significant revenue in anybody's book, especially during tough economic times.

TDG is in the process of assessing and forecasting demand for TV Everywhere-type services in the U.S. For more information on TDG's new TVE project, please visit our website at [www.tdgresearch.com](http://www.tdgresearch.com).

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<sup>1</sup> "Cable Firms Look to Offer TV Programs Online," Sam Schechner & Vishesh Kumar, *The Wall Street Journal*, February 20, 2009.

## 3.0 Over-the-Top (OTT) Video Delivery

### 3.1 Overview

While TVE seeks to push cable TV programs to the Internet, OTT efforts look to push Internet video to the TV (even if it happens to have originally been made-for-TV content). OTT models count on being able to deliver their video over broadband networks that are in most cases owned by (you guessed it) an incumbent PayTV operator. This makes net neutrality and open access key to the future of OTT efforts.

As TDG long ago predicted<sup>2</sup>, a number of companies are today delivering (or poised to deliver) OTT video services. Yet these early entrants have struggled to find clear, effective monetization models for delivery over the open Internet, tending instead toward closed or walled-garden environments that permit tighter control over content delivery. The dominance of closed or restricted ancillary platforms (e.g., Vudu and Sony's PS3) only reinforces this trend. Very soon, however, consumers will discover the downside to these restrictions and turn to solutions that enable a more complete OTT experience and, rest assured, the market will respond. Ultimately, the closed iTunes model gives way to the truly open "iDecide" model in which consumers have access to a wide variety of video providers on a wider variety of devices.

Over-the-Top platforms generally fall into one of the following categories, some vertically oriented, others more horizontal:

- PC Extenders – formerly known as Digital Media Adapters/Extenders (DMAs or DMEs), this platform allows users to access media on the PC at the TV and some Internet content directly.
- PCs – the venerable home computer continues its evolution. In fact, many consumers use their laptop to feed content from the Internet to their TV, while others are using the desktop PC/monitor.
- Hybrid Set-top Boxes – STBs which combine traditional PayTV services (most often satellite TV) with broadband-enabled video. TiVo is an excellent of a hybrid set-top box that can download and stream specific types of online video directly to the television.
- Broadband or Internet Set-top Boxes (iSTBs) – These dedicated devices exclusively obtain their content from specific online sources and deliver it over-

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<sup>2</sup>[Broadband Video: Redefining the TV Experience](#) (TDG, 2007)

the-top to the TV. For example, AppleTV allows you to access iTunes media on the television set, whether stored “in the cloud,” on the PC, or on the iSTB itself.

- Game Consoles – The PS3, Xbox 360, and Wii all feature broadband connectivity and are thus capable of accessing online media on the television. While they are by default closed (i.e., do not enable access to just any web media), a browser can be added by which users can view just about any web-based video. Both the Xbox 360 and the PS3 also allow users to buy/rent movies and TV shows from a branded online store (e.g., Xbox LIVE or PlayStation Network).
- Connected DVD/Blu-ray Players – In addition to disc-based viewing, these broadband-connected players enable specific walled-garden content to be viewed (most often content of relevance to the DVD in the tray). Hollywood studios such as Disney view this requisite as a limitation; they want consumers to be able to access Disney-owned content regardless of which DVD is in the player (a battle yet to be resolved, but one capable of driving Disney and other studios towards OTT digital downloads and streams versus physical DVDs). Blu-ray also defines a connection standard called “BD Live.”
- Open Network Access Nodes (ONAs) – devices that allow unfettered, open access to Internet media from the television. This is but an emerging category as many of the issues regarding open access from the television have yet to be solved. Examples include the Roku set-top box and ZeeVee adapter.
- Connected Televisions – these new TVs feature a broadband port that can connect directly to the Internet. Examples include the new Samsung LED TV 7000 with the Yahoo! widget engine and Sony's Bravia TVs.

The platforms for OTT video delivery are being put in place, even if consumers remain unaware at this stage. The question, then, is if sufficient demand for such services exists.

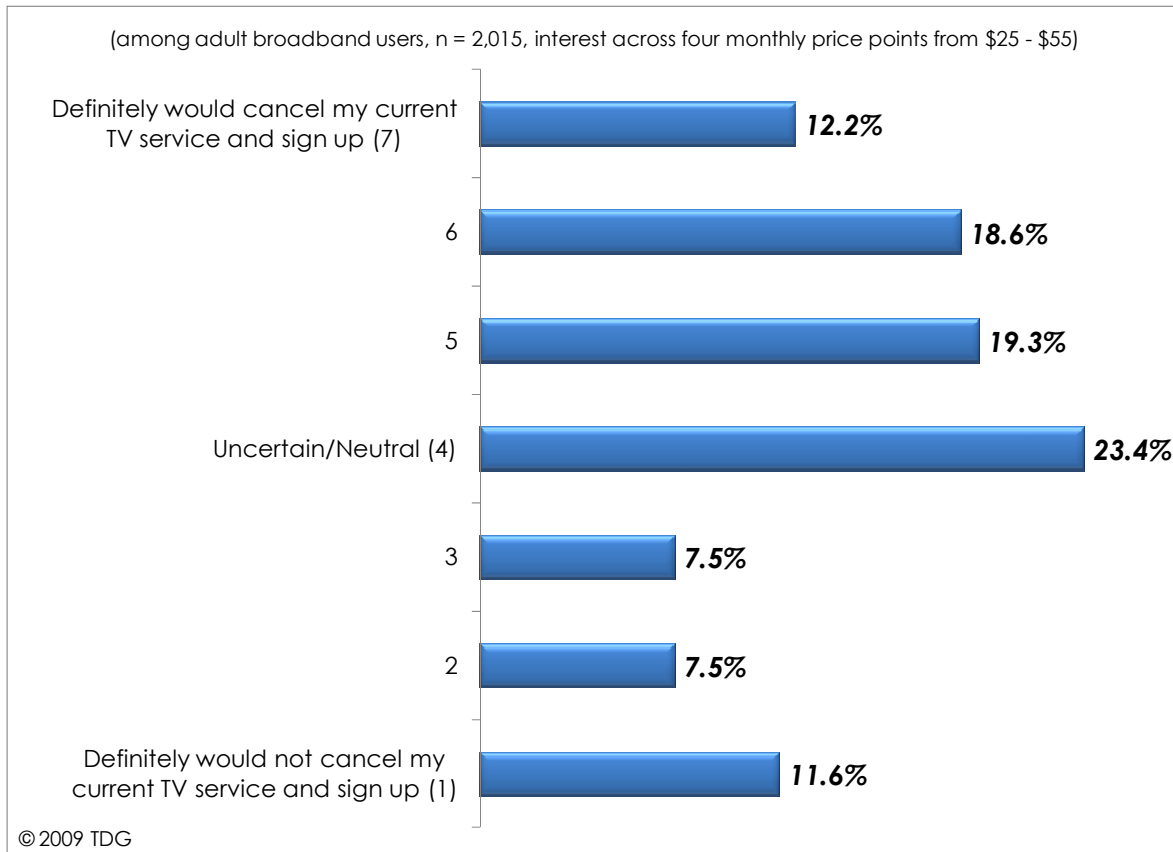
### 3.2 Consumer Interest in OTT Video Services

TDG's most recent OTT-focused primary consumer research was fielded in Q1 2009 and a broadband-based alternative TV service that featured:

- 20-30 TV channels of choice;
- On-demand movies; and
- A wide variety of online video and entertainment.

Thereafter, respondents were asked of the likelihood they would sign up for this new video service as a supplement to and as a replacement for their current PayTV service at a randomly assigned price points. Consumer interest in an OTT replacement service is summarized in the figure below.

**Figure 3 – Consumer Interest in OTT as PayTV Replacement**

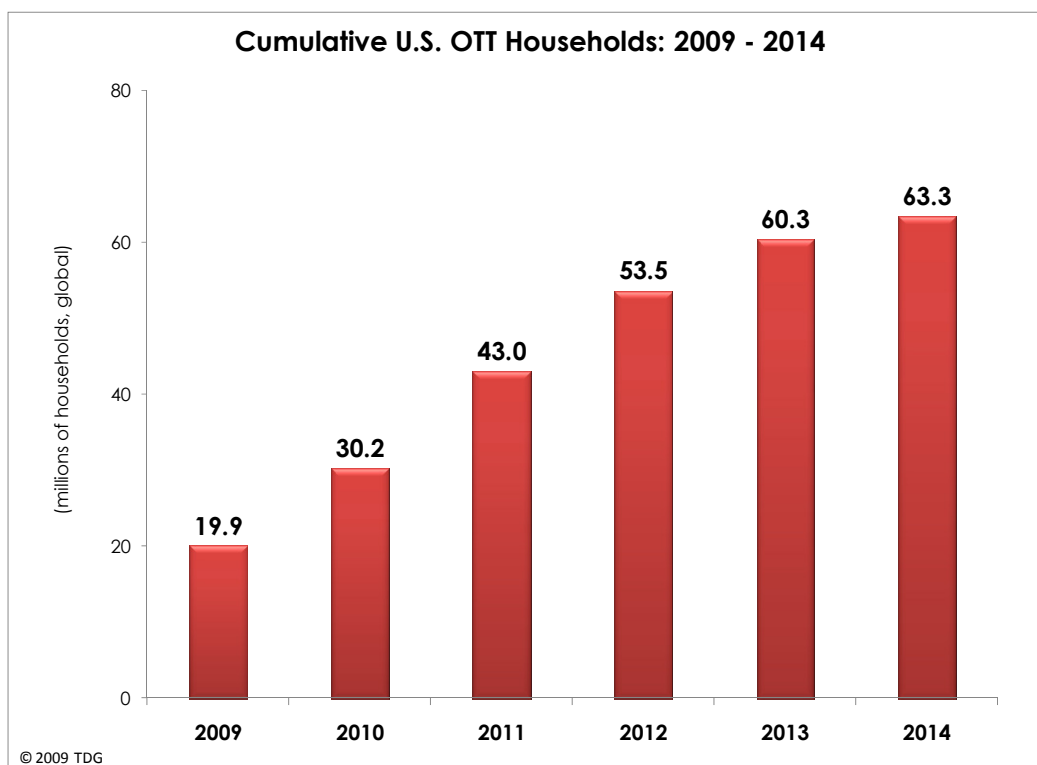


As noted, more than half of adult broadband users are to various degrees likely to cancel their current PayTV service in exchange for this type of OTT TV service – an alarming statistic, for sure. Yet growing interest in replacing one's service PayTV service with an OTT service ("cutting the cord") is just one of the many threats posed by OTT. The second threat derives from supplementing a basic PayTV subscription. Consumers will increasingly turn toward OTT services for their video-on-demand and pay-per-view needs, thus threatening a high-margin source of value-added revenue for incumbents.

When the two drivers (replacement and supplementation) are combined, OTT services must be viewed as a legitimate long-term threat to the profitability of incumbent PayTV services. To provide perspective of the magnitude of this growing

threat, TDG predicts that the number of OTT households in the U.S. will grow from 19.9 million in 2009 to 63.3 million in 2014, virtually tripling during the forecast period (see Figure 4 below).

**Figure 4 – U.S. OTT Household Forecast: 2009 – 2014**



This illustration features data from TDG's latest report, [Broadband-Enabled TV: Rise of the OTT Provider](#). This new publication presents a global analysis of the prospects for OTT video as both a supplement to and replacement for PayTV services. In other words, approximately half of all U.S. households will be enjoying some form of OTT video on their TVs in 2014. Globally the number of OTT households is expected to grow from 40 million to 165 million in the same time horizon, a four-fold increase.

#### 4.0 TVE vs. OTT – Different Models, Same Teleology

The market potential for both TVE and OTT is legitimate. Consumers find these services compelling for much for the same reason: they want “anytime, anywhere” access to their favorite media and both TVE and OTT are both efforts to address these evolving consumer needs. Similar though they may be, however, the differences between TVE and OTT are very real. The table below contrasts these two models according to their defining elements and by evolutionary phase.

**Table 1 – Contrasting Key Elements of TVE and OTT**

Market Phase	TVE	OTT
<b>Business Models</b>		
<b>Preliminary</b>	Core PayTV subscription No-fee entitlement to second screen (PC) No major mobile offering in place	Primarily PPV Few subscriptions Free viewing, ad-supported
<b>Maturity</b>	Integrated three-screen (TV/PC/mobile) subscription (Comcast has made clear its intention to add mobile to the TVE mix, a precursor of more broad industry efforts)	PPV remains significant Single and two-screen TV/PC subscriptions grow in prominence Free viewing, ad-supported
<b>Screens Served</b>		
<b>Preliminary</b>	TV remains dominant viewing platform PC added to the mix	PC remains dominant viewing platform TV-centric offerings grow in strategic importance and breadth of offerings Few mobile offerings available (Apple’s vision being one exception)
<b>Maturity</b>	TV remains the primary viewing platform, PC and mobile viewing become key differentiators for incumbents, True 3-screen integrated viewing	TV becomes the dominant platform for web video viewing PC becomes a true “second TV” Mobile elements more prominent and integrated into true 3-screen offering
<b>Content</b>		
<b>Preliminary</b>	Limited content from major cable networks Limited Internet-based video Primarily on-demand access with some programming available live	Dominantly Internet-based video Limited TV programming Primarily on-demand access with some programming available live
<b>Maturity</b>	Comprehensive slate of cable network programming, both live and on-demand Internet video, both live and on-demand	Comprehensive slate of made-for-TV programming available Internet video, both live and on-demand

As noted, TVE and OTT will converge on the same markets over the next few years, both evolving to truly integrated three-screen programming rosters that combine made-for-TV and web-based content both live and on-demand. However, whereas TVE will be subscription-based (an extension of PayTV service models), most OTT content will be ad-supported and available without a fee or pay-per-view (an extension of dominant web video models). It is unlikely that TVE boosters will ever give up their subscription revenue, an entrenched (and profitable) disposition that gives OTT a leg up. Then again, free ad-supported OTT providers must deliver content consumers really want to watch or risk losing them to fee-based alternatives, some OTT and some TVE.

Unavoidably, these trends point to the fact that the business of PayTV is about to become significantly more competitive. To the mix of cable, satellite, and telco-TV players will be added a fourth competitor: broadband-based OTT services. Albeit initially limited in terms of breadth and depth of content, OTT offerings will evolve to include the best of premium video—be it made-for-TV or made-for-the-web (demarcations becoming less meaningful by the minute). Over time, this will erode the well-entrenched base of PayTV subscribers and ultimately impact revenue. Significant questions arise, including:

- Will TVE be enough to reduce the threat of “cord cutters” or will it just delay the inevitable?
- Does the trend toward an all-IP quantum video universe portend the amalgamation of previously demarcated, horizontally distinct video distribution models?
- If so, will incumbent PayTV operators evolve to become true quantum media operators whose online offerings exceed even the best of OTT competitors?

## 5.0 Final Thoughts

In the end, TDG believes that asking which of the two models—TVE or OTT—wins out in the end is the wrong question. A more useful question is how the balance of power between these two models will evolve over time.

Both TVE and OTT will take a few years to get their legs, meaning early progress on both fronts will be slow. However, according to TDG's latest forecasts, pay-per-view OTT revenue will account for as much as 25% of U.S. home rentals by 2014, meaning the pace of growth will pick up quickly. Yes, that is still but a portion of incumbent revenue and incumbents will still dominate the home video landscape for years to come. Then again, carving out one-fourth of the total home rental market is nothing to sneeze at...and that is just the tip of iceberg for OTT. Ultimately, more open "iDecide" video access models will trump closed "walled garden" efforts, meaning even incumbents will be forced to alter their business models in order to compete effectively with web-based competitors who, given modern technology, will be able to distribute content to any broadband-enabled platform, be it a TV, a PC, or a mobile device.



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We hope this dBrief has helped you gain a greater understanding of the over-the-top video market and its challenges. But it does not end here. We invite you to take a few moments to visit our website and see for yourself how deep the research goes and the vastness of the data collected.

At TDG, our mission is to help you locate your target audience of today, and point you towards your consumers of tomorrow. We apply our extensive research to your specific strategy. Ultimately, our success lies in helping you find yours.

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**Related Reading**

This TDG dBrief is yours to share with as many people as you wish. Should you be interested in a much broader and more granular discussion of consumer interest in OTT services, check out other TDG reports:

- [Broadband-Enabled TV: Rise of the OTT Provider](#)
- [Over-the-Top Broadband Enthusiasts – Who Are They, What Drives Them, and What Do They Want?](#)
- [PayTV Service Providers and Online Video Delivery: How Soon is Now?](#)
- [Online Video Strategies for TV Content Providers: Reflections and Recommendations](#)

**About TDG**

TDG provides actionable intelligence on the quantum shifts impacting consumer technology and media behaviors. Since 2004, our market research and advisory services have helped hundreds of technology vendors, media companies, and service providers understand how consumers access, navigate, distribute, and consume broadband media - whenever and wherever they may be.

For more information about The Diffusion Group, visit our website at [www.tdgresearch.com](http://www.tdgresearch.com).