Global OTT Video Bundling Deals and Service Partnerships

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Ovum’s Global OTT Video Bundling and Partnerships tracker provides an interactive and dynamic assessment of the alliances struck up between premium streaming video service providers and telecoms operators or pay-TV operators/distributors.

The results from the tracker tell us that alliances between network-based operator-distributors and providers of paid online video entertainment services have risen dramatically in the last two years. A key factor behind this shift is the increasing availability and maturity of broadband services, which has led operators to differentiate and add value to their access products.

It is a market in which Netflix remains the most prolific OTT video service partner. However, mobile network operator partnerships and carrier billing are driving growth among other regional players, particularly in Asia-Pacific and evolving markets such as the Middle East and Africa.

Indeed, mobile has grown dramatically to become by far the largest service distribution channel. This trend highlights the growing acceptance of mobile broadband as a means of video delivery and consumption as well as its growing importance as a sales and marketing channel for premium OTT video and other entertainment services.

While most partnerships are based on some degree of commercial/technical cooperation between players, the results from the tracker also illustrate a significant number of relationships that are purely marketing alliances with players on each side of the partnership leveraging the other’s capabilities to promote their own services.

Current scenario

Perhaps unsurprisingly, Netflix is by far the most active and sought-after SVOD service partner globally. Netflix’s international expansion has entailed working with cable, satellite, and IPTV operators in multiple territories to deliver its streaming services to pay-TV subscribers via the TV STB.

Unlike Netflix, the premium channel network HBO has deeply entrenched relationships with pay-TV distributors and must therefore tread cautiously when forging partnerships that may undermine its core business, which, for the time being at least, relies heavily on traditional delivery and payment models.

While Netflix and HBO are expanding globally, the other prolific OTT partners (those with six or more operator alliances) such as Hooq, Iflix, and Starz Play Arabia tend to have a more regional focus.

Geographical distribution of partnerships

Asia is the leading growth region in terms of OTT video bundling deals and service partnerships. The key OTT players in the region include Iflix—a low-cost SVOD player that has struck up distribution partnerships with telcos across multiple territories in the Asia-Pacific region, and Hooq, joint venture based in Southeast Asia between SingTel, Sony Pictures, and Warner Brothers, which has forged alliances with several Asia-Pacific operators since 2015.
Unlike music streaming services, online SVOD is not typically bundled into operators’ broadband (or pay-TV) tariff plans. The addition of third-party OTT video to the consumer service mix is a relatively recent phenomenon, and players from both sides are still experimenting with business models and exploring packaging strategies.

In most cases, the OTT product is used primarily for promotional purposes to enhance an operator’s broadband or TV service and brand, or to drive uptake and usage of mobile data plans. Around two-thirds of partnerships with TV as the primary service channel do not involve bundling the OTT service subscription into the operators’ tariff schemes. This is particularly understandable in the case of pay-TV operators, who will be naturally cautious about undercutting and cannibalizing their own TV offerings.

Services that are bundled are typically referred to as either a hard bundle or a soft bundle. A hard bundle is a premium (paid) OTT video service included “free” in a telecoms, broadband, or pay-TV subscription tariff for the duration of the subscription (usually one or two years). A soft bundle is a video service that is bundled with either a main tariff or bolt-on tariff and charged either at a discount or at full price. These usually include a standard initial free trial period of no longer than one month, or an initial discount (usually three to six months).

Hard bundling of premium OTT video services remains rare, occurring in just 44 of a total of 318 tracked partnership arrangements. It is much more common for operators to “soft bundle” a subsidized complimentary subscription for a limited period of time – resembling an extended trial subscription.

Ovum classifies operator-OTT partnerships into three broad categories. The first (Type 1) is a marketing alliance. In this case there is usually no commercial relationship between the two companies and no direct investment from either party. One party is simply using the other brand as a marketing tool. Services are non-bundled and not integrated with the operator’s tariff structure, billing system, or service UI. Third-party service is also not integrated into the operator UI. An example of this type of partnership is that between Vodafone UK and Amazon Prime Video.

The second (Type 2) is a technical and/or service integration. There is some level of cooperation between the two companies and no or low investment. The main purpose is to increase the marketing of each product. It typically entails third party services being integrated into operator’s mobile, broadband or pay-TV tariff plans, while in some cases OTT video services are integrated with an operator’s STB UI. An example of this type of partnership is that of Shaw Communications and Netflix. There may also be integration with an operator’s mobile entertainment portal providing a single point of access to (and in some cases payment for) third-party OTT services.

The final category (Type 3) represents a close business relationship – typically involving a commercial agreement or revenue share. The relationship can range from an announced strategic agreement between the two parties to the creation of an independent joint-venture company. The partnership may also entail white-labelled or co-branded products with medium to significant levels of investment. An example of this type of relationship is MTNL and Hungama.

In the medium term at least, Type 3 partnerships look set to remain the dominant category as players seek the benefits of deeper customer relationships associated with service integration.
Marketing initiatives are the first step

While Type 3 partnerships represent the lion’s share of alliances overall, looser, Type 1 relationships (where there is no service bundling and no commercial arrangement in place) continue to grow steadily in absolute numbers but are declining proportionally.

The proliferation of purely marketing partnerships during 2016 reflected a growing desire among mobile, broadband, and TV service providers to align themselves with OTT brands and the perceived importance of these third-party services in driving usage of broadband services (particularly mobile).

Increasingly, operators are looking to integrate third party services more closely into their service portfolios and tariff schemes and hence forging deeper relationships with their OTT partners.

Unlimited zero-rating of data used for OTT video consumption remains relatively rare among mobile operators, although it is on the increase, with T-Mobile USA’s Binge On initiative being the most notable example. There is, however, a growing trend toward offering add-on packs comprised of data allowances allocated specifically for streaming selected partners’ video services.

Distribution channels

2016 in particular saw a surge in the number of mobile partnerships and bundling deals, with the result that mobile now substantially eclipses TV as the leading channel category. The rapid growth of mobile broadband uptake across the globe – particularly in the emerging regions of Asia-Pacific, Latin America, and the Middle East – and the acceleration of LTE deployment has spawned interest in mobile video as a value-added service. In these regions, well over half of the partnership distribution channels are mobile.

Overall, partnership service channels are split roughly 55% mobile, 28% TV, and 17% fixed broadband. Although still dominated by mobile, soft-bundling partnerships tend to have more fixed broadband than TV channels, whereas the relatively small number of hard bundles are spread more evenly across the three channel categories.

TV-based partnerships have continued to appear steadily, while the smallest channel category – fixed broadband – has grown nearly fivefold (almost as fast as the much bigger mobile channel) since 2015.

Service integration

Carrier billing is by far the most prevalent form of service integration in our dominant Type 3 category of operator-OTT partnerships. It is an important facilitator in both signing up customers and arranging payments for OTT services. While there is some carrier billing involved with certain STB integration partnerships, the majority of carrier billing implementations have been via mobile networks, where they have had a particular impact in enabling OTT service usage and adoption, in developing markets especially.

Integration of OTT SVOD services with TV service provider’s STB UIs – either within an app-store type of environment or, in some cases, as a dedicated channel listed in the EPG – has become increasingly prevalent since the first significant implementation by Virgin Media and Netflix in late 2013.

Key benefits of STB integration include having consistent UI and functionality across partnered OTT video and service provider TV or video offerings, enabling users to remain within the service provider controlled and branded environment, and the exposure of OTT video services to relatively high entertainment spending audiences, helping partners build subscribers.

Besides STB delivery and carrier billing, another, much less prevalent example of Type 2 partnerships comes in the form of aggregation and integration of multiple third-party OTT services with an operator’s OTT/mobile entertainment portal. This facilitates access for customers, benefiting both the operators and their partners by driving both data usage and OTT service adoption. An example of this is Vodafone Play in India.
In summary

The results from the tracker clearly illustrate the rise of mobile as a delivery channel for OTT video. The proliferation of LTE (and 5G, going forward) and the evolution of portable devices means that this trend is only going to continue. MNOs will be well placed to be creative in developing data tariff strategies that will help monetize their networks and customer bases. At the same time, they will become an important facilitator of paid OTT video service adoption and loyalty, particularly with the aid of carrier billing, which facilitates both sales and stickiness.

We recommend that operators and OTT players alike strive to evolve their partnerships. Type 1 partnerships are a good starting point for players to work together, but it is important to keep forging closer partnerships that will generate revenue and customer loyalty for both parties. Outside of discounted bundling, there are a number of options that make deeper partnerships beneficial. These are based on tighter integration of OTT services with those of operators, which could be in the form of carrier billing, access to a partner’s OTT video service via operator-provided devices, or the development of operator tariff plans that promote partner services.

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