

# 4 stages to new money from new video



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Driven by the popularity of smart devices, 4G network construction, and thriving Internet ecosystem, experience is king. As video makes up the bulk of Internet traffic, getting it right is the key to subscriber loyalty, successful business models, and commercial success.

By Li Changwei, Chen Min

## Making breakthroughs

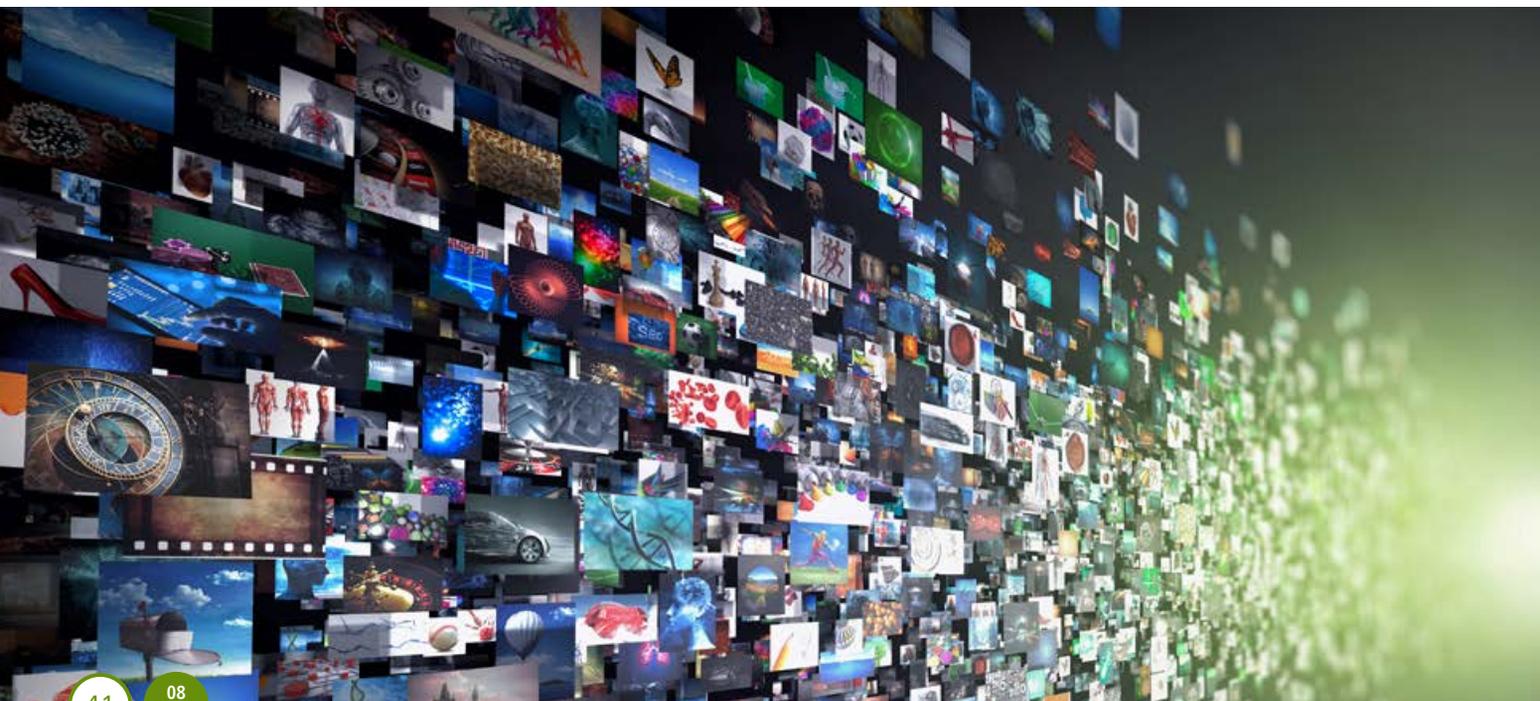
**M**ajor Internet video players have made breakthroughs with users and data in large part due to the rise of UGC, as exemplified by YouTube's 1 billion users, which at one point accounted for a third of all wireless data traffic in North America despite being unprofitable. On the flip side, US pay-TV services, including cable, satellite and IPTV, lost 666,000 subscribers in Q2 2016.

Right now, the video industry is a maelstrom of competition and growth potential, with some enterprises already monetizing the space where traditional, operator, and Internet video overlap.

## Monetization methods

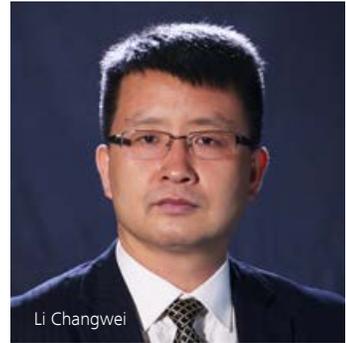
### Broadband monetization

Sport is the cash cow here, as demonstrated by success stories in Europe. In 2015, Telefonica's





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Spanish subsidiary grew for the first time since 2008 after it won exclusive broadcast rights for the 2015/16 season matches of three Spanish leagues with a €600 million bid. BT paid £1.26 billion for TV rights to certain Premier League, Champions League, and European Cup matches for the 2013/14 to 2020/21 seasons, helping the UK operator grow 4.7 percent in Q3 2015/16, its best performance for seven years.

These telcos have several things in common: One, a leading market share in the fixed network market plus broadband products ranging from 100 Mbps and 300 Mbps; two, high-value local content based on exclusive buyouts and a position as the first to offer 4K IPTV as a differentiator; and three, smart pricing models and free video services that attract subscribers and protect pipe investment – they're earning money from network itself.

## Content monetization

In 2016 in Korea, KT announced that its pay-TV service revenue had grown by 13.4 percent year on year to approach its broadband revenue. With this increase, a new media > broadband > wireless scenario emerged in terms of the revenue contribution of different services. Five years after LTE was commercially deployed in Korea, broadband and IPTV became the

fastest growing services.

In 2015, AT&T paid US\$48.5 billion for DirecTV, the world's largest satellite TV operator. That year, AT&T divided its business operations into four sections: Business Solutions, Entertainment Group, AT&T Mobility, and International. In October 2016, it announced a deal to acquire Time Warner for US\$85.4 billion in cash and stock. If the acquisition is successful, video and media will account for more than 40 percent of the operator's total revenue, and will become its main source of revenue and profit. At the time of the deal, AT&T declared that "the future of mobile is video and the future of video is mobile". Bringing together the best content and the highest scale in distribution and customers is the industry's best prospect for growth.

The Korean and American operators have used two different models to monetize video content. In Korea, KT used a model based on cooperation, supplemented with investment and innovation to achieve growth. In America, AT&T became a content and copyright creator and owner through an M&A model, taking direct possession of the most valuable part of the video industry chain.

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### Platform monetization

Netflix started out as a video rental service and eventually developed into a video-based Internet streaming and content aggregation and distribution platform. Charging US\$7.99 a month, Netflix enjoys sustained profitability. In Q4 2016, it posted a 41 percent increase in annual revenue to hit US\$2.4 billion and a 74 percent rise in profit to US\$470 million. It also added over 7 million subscribers during that quarter, a new record. Netflix now has around 94 million total members, 47 million of which are overseas and the vast majority paying members.

Netflix took seven years to migrate to cloud. From the outset, it publicized itself as a big data company, stating that 75 percent of viewing traffic came from big data-based recommendations and that big data had allowed it to deliver a smooth user experience, conduct precision marketing, and precision investment. Netflix's video platform based on data technology will be a core competitive strength for developing video services in the future.

### Monetizing the ecosystem

Video is big broadband's traffic destiny. The interactive multimedia trend in user experience suggests video is an enabler. It's a capability, not a service. TV, conferences, games, education,

medicine, and monitoring are user-end services and applications. Video will ultimately become a medium of communication that will support a wide range of applications, and is one of the key starting points for operators to innovate high-value apps.

With KDDI's Smart Pass service, users in Japan can download and use over 500 mainly local apps packaged and purchased by KDDI, and enjoy 50 GB of cloud storage, coupons, insurance, and mobile anti-virus protection for just 399 yen (US\$3.6) a month. As of December 2016, KDDI had 15 million Smart Pass subscribers with 83 percent of its new smartphone users in Japan opting to join. KDDI shares subscription revenues with developers based on monthly use of the applications, with developers keeping 80 percent to 90 percent of the revenue compared with Apple's 70 percent.

In 2011, NTT DoCoMo launched Smart Life, which offers media content, payments, shopping, travel, and other lifestyle services on dMarket. The platform initially provided the video service dTV, but it's now evolved into an app store that offers apps, books, magazines, animation, and games. In the FY 2016, Smart Life Business accounted 11.1% of total operating revenues. In H1 2015, NTT DoCoMo proposed a strategy to become a co-creator and evolve from B2C to B2B2C and B2B2B by using



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its core assets and advantages combined with the specialist skills and knowledge of its partners.

Adopting Apple's app store model, both KDDI's Smart Pass and DoCoMo's Smart Life platforms support and stimulate the creation of high value content, enabling value co-creation and sharing. Between 2012 and 2016, both operators drove growth through innovative ecosystem-based platforms and revenue sharing.

## **New video = value innovation + experience innovation**

As the telecoms industry has developed, control points in the cloud-pipe-device ecosystem have changed. At MWC 2017, the Vivendi CEO said, "The 21st century is the era of 'content is king', but the most valuable content is exclusive, premium, and live content." This is further evidence of how ecosystem control points are changing from smart devices to video and content.

Traditional video comprises programs with predetermined content viewed at set times. Video now incorporates new technology, adding value and innovative experiences; for example, user-generated short videos on mobile devices and services such as YouTube, Periscope, and Snapchat have transformed video production and transmission methods. Cross-screen video in the US, Japan, and South Korea is

integrating social sharing, UGC, O2O, LBS and other new functions in addition to 4K, 8K, and AR/VR.

New video incorporates technology, art, and culture innovation, and has attracted new streams of users, data, and capital. For example, the of shooting Ang Lee's film *Billy Lynn's Long Halftime Walk* was five times higher than normal, because it used the highest technical standard of 120 frames per second in 3D at 4K resolution. New video has created opportunities for new business models and profit margins, forming a magic wand capable of casting commercial transition in the video industry.

From 2017 onwards, new video will solve bottlenecks in the traditional market, create huge amounts of opportunities, and force the industry to move forward.

## **Video evolution roadmap: From broadband to ecosystems**

For operators, video strategy will evolve in four stages:

### **2016-2017: XBB + video:**

Video development depends on fixed broadband, but value-based breakthroughs come from LTE. When average data per use per month reached the critical 1 GB point, we saw an 80/20 distribution user traffic

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model – 80 percent of traffic carried by FTTx + Wi-Fi and 20 percent by LTE networks.

Video differentiated 4G from 3G. For example, early on in Verizon’s LTE rollout, the operator drove traffic and user growth by using its lightly loaded network to provide HD video services such as real-time and two-way video and live broadcasts of ice hockey and American football. Operators obtained traditional fixed video or IPTV mainly through collaborative models, bundled it with broadband, and gradually developed triple- and quadruple-play services.

### **2018-2019: Broadband monetization**

Operators will monetize broadband through high-value video by developing optimally sized FMC broadband networks to maximize cost efficiency. They will source and bundle local high-value content.

European operators’ success with exclusive sporting content is a good example, with their large user bases and smart pricing models for monetizing broadband maximizing returns.

### **2019-2020: Video monetization**

The value of new video will lie in quickly attracting users and boosting traffic consumption to increase profits. New video requires new tech and platforms, especially pipe-cloud integrated networks that increase efficiency, lower costs, and guarantee

experience. In the Korean market, the three main operators have already demonstrated that new video is the fastest growing service and a new revenue driver.

At this stage, operators must develop their own intelligent video platforms to achieve Netflix-like cost efficiency, an excellent video experience, and precision marketing. For example, SK Telecom’s media platform provides personalized video content, and Verizon has announced an open service platform called Exponent, which contains a media service sub-platform, delivers services from Verizon, and provides other operators with products and solutions such as video/TV middleware, CDN, and devices. Thus, Verizon now supplies other operators.

### **2020-2021: Ecosystem monetization**

A powerful video platform can yield market insights, promote service innovation, and boost income from ecosystem innovation and quick value creation. Apple’s Apple Store, NTT DoCoMo’s Smart Life, and KDDI’s Smart Pass all provide benchmark examples.

The opportunities for monetizing video are clear, especially with new video. Operators that build strength in connectivity, promote open collaboration, and innovate services through the technology + art + culture mix will successfully transform their video businesses. [Ustream](#)