VOD - The Big Picture

Understanding The Landscape of Video On Demand **Part 1 of 2**

insight

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Rewarding viewer control

Video on demand (VOD), arguably one of the hottest topics currently facing the advertising industry, stands poised to revolutionize not only the way consumers watch television but the way advertisers reach consumers with their messages.

Advertisers that embrace the channel by providing rich, entertaining, and informative content about their products and services can realize substantial rewards in the form of brand awareness, trustworthiness, loyalty, and conversion on calls to action and sales. As consumers increase control over what and when they watch television, advertisers who reward that ownership with engaging, well-crafted messages will set the new standard for delivering value to their customers.

Problem:
As viewers wrestle control of their TV viewing experience, old models of advertising need to be re-considered.

Solution:
Advertisers must learn about new VOD technology to adapt their messages to the medium.

Benefit:
New directions offered by VOD technology are revolutionizing the ad industry and offering better ways of targeting brand messages and engendering customer loyalty.

VOD technology and product offerings from major cable providers vary widely in both form and function. The structure of the industry and its players is not straightforward, making the use of the medium seem much more complicated and difficult than it really is. No clear logic exists regarding which agencies provide service and support of this medium for advertisers.

Getting a clear picture

This paper attempts to present a clear picture of the emerging VOD industry, enabling marketers to assess its opportunities and challenges. It will do so by defining standard industry terms and evaluating the major players in the VOD marketplace, their scale and reach, their inter-relationships, and their plans for the future.

A primer in VOD

The industry uses a tangled terminology to talk about itself. There is widespread confusion about how to differentiate terms and their relationship to services, and in fact many services do closely resemble each other in some ways. Still, differentiation is key to understanding the role of the advertiser in VOD.

What is VOD and its related categories?

Video on Demand (VOD) is an overarching term to describe any service that provides viewers with video offerings of their choice at a time of their choosing. Typically a VOD technology allows the user to control playback with features like pause and fast-forward. The original definition of VOD pertains to video files that are requested by a user through their **digital set-top box (DSTB)** and instantly delivered from a remote server cluster by the Internet provider. The term's scope has broadened to include video that may reside on a **digital video recorder (DVR**) hard drive in the viewer's home and is called up for playback without invoking a live network connection.

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Free on demand (FOD), a variation of VOD, refers to on demand video provided to cable subscribers for no additional charge beyond their monthly subscription. Many industry pundits believe the free service is the key to making VOD widely adopted and could hold the key to ad revenue opportunities. To date, FOD offerings have been measly and underwhelming, but things are changing quickly as more networks and content providers see the opportunity to sell sponsorship through FOD placements.

<u>One point of clarification</u>: not all digital television is VOD. **Digital television (DTV)** is primarily delivered via coaxial cable, fiber, or via satellite, and may or may not allow for VOD or interactive features.

Technologies that affect the delivery of video

Technology is changing what was once described as a passive activity. Television began to change with the phenomenon of **time-shifting** which enables viewers to watch network shows whenever they want, often skipping commercials altogether, thereby throwing the traditional TV ad model out of whack. Time shifting has rattled many ad execs and media companies, undermining the foundation of TV advertising, which relies on being able to predict audience make-up by viewing time and content type.

Other technologies put the viewer in charge. **Overlay**, which provides interactive features by layering controls over cable video content, is the technology that makes interactive television (**iTV**) work. There are a number of overlay software providers out there, but the key players at the moment are Navic Networks and GoldPocket, both US companies.

Another emerging technology that offers the advertiser opportunities is **BNU**, or branded navigational unit. Offered by Philadelphia-headquartered Comcast, this is essentially a 30- or 60-second TV commercial specifically directing viewers to an area of Comcast OnDemand to view sponsored content in their free area, called Spotlight. VOD placement is an effective way to drive viewers to content provided by advertisers.

Telescoping or showcasing allows the viewer to pause the current program for the BNU spot and return to the paused program afterward. This type of ad is unique to digital television, and it offers the most promise to advertisers for revenue generation.

The total convergence of the Internet and iTV will mean seamless messaging and service can be provided to individuals on an unprecedented level for those who are ready to take advantage. Those who do will emerge as the new super-brands of cross-channel marketing.

New forms of advertising are emerging with VOD. No longer is an ad limited to the traditional 30- or 60-second spot. The **Long Form** refers to any type of VOD content longer than the traditional spot. Examples of long form VOD content include three to five minute "visuals" of an auto or technology product as well as demos that are full blown, 30-minute narrative pieces. Many industry analysts view long form as the next generation of TV advertising, because it provides a deeper, richer view of a product or service to a self-selected and thus pre-qualified audience. Futurists envision a day when TV no longer contains commercials but rather offers viewers access to long-form information on the products and services they are interested in, followed by a dynamic "call to action."

The most common use of interactive overlay technology is **RFI,** request for information, where viewers are prompted to ask for more product information through mail or email, to schedule a time for a representative to contact them, or, in extreme cases, to order a product through the on-screen interface.

All of this technology and functionality has the basic effect of changing the television experience from being a passive to and active one through interactivity. This interactivity provides more opportunities for marketers to employ the medium outside of traditional 30 second approaches, to track and measure behavior of these television experiences, and provides audiences with unprecedented opportunity for control over their entire experience.

The Landscape of VOD

The VOD industry is composed of three levels. These levels break out the roles of the companies involved in operating VOD systems and delivering VOD into the home. Each of the levels works with the other, and each plays a specific role in the delivery of the VOD experience to the consumer. Please note, the use here of the term "level" is purely an editorial device and not an industry term. It simply makes functions easier to understand within the big VOD picture. The levels, and the companies in each level, illustrate the relationships behind the scenes that make VOD work.

LEVEL 1 – the MSO's

As small independent cable systems that served specifc towns were rolled into the giant conglomerates of today, companies such as Comcast became known as multi-system operators (MSO) because they own and manage systems across many municipalities. As these companies offered additional services outside of cable television (such as broadband internet and telephony), they began replacing the word “system” with “service” in the acronym. In fact, most MsysO’s today are in fact MServO’s, where one of the additional services is VOD capability.

While there are several dozen cable system operators in the US and Canada that offer VOD and iTV functionality in their networks, the five ”ones to watch” are profiled below. These MSO’s are important by virtue of their scale, VOD subscriber penetration, specific VOD or iTV functionality offering, and their plans for the coming year regarding ramped up VOD offerings. Below, the major players are briefly profiled.

Comcast
Comcast Corporation is by far the largest DTV MSO in the US. In 2005, the network has an estimated nine million digital households (42% market share) in over 40 markets, out of 26 million total household subscribers. Of those, they estimate almost two million households use Comcast VOD systems at least once a week. By the end of 2005, Comcast has committed to digitally enabling their entire 26 million household footprint with DSTB’s and VOD services, which would make it the largest VOD digital network in the world, with triple the market share of any other digital MSO in the US.

Futurists envision a day when TV no longer contains commercials but offers viewers access to long-form information on the products and services they are interested in, followed by a dynamic “call to action.”

Comcast has been slower to explore and incorporate high-end VOD features like iTV, as compared to other major MSO’s, but in 2006 that is rapidly changing. Last year, Comcast began offering a VOD advertising package to select clients. To drive viewership to the VOD content, Comcast included up to 60 minutes of branded, showcased video content available 24x7, supported by a BNU run across the top 50 major networks. As of this writing, they have changed the pricing and structure of this ad opportunity, likely in anticipation of 2006 new features rollout. At least 27 major US consumer brands have already completed VOD buys under this scheme. The majority are either automotive or food brands, although there are a sprinkling of banking, tourism, and pharmaceutical advertisers. At the time of this writing, Comcast has announced its partnership with **TiVo**, the leading VOD and iTV interface platform provider. The partnership will result in fundamental components of the TiVo user interface becoming Comcast’s own digital TV interface across their entire footprint by early 2007. Allowing for extended TiVo functions like DVR management, web access to **Yahoo!** services and feeds**,** podcasts, remote programming, and wireless porting of media between DVR’s and PC’s, this partnership is poised to fundamentally change the landscape of the industry by pushing the convergence ahead at blistering speed.

Time Warner Cable (TWC)
TWC has quietly (or not so, depending on whom you ask) spent the last several years building the second largest digital MSO operation in the US. In 2005 the network boasted its largest incarnation yet, at 11 million total subscribers in 44 markets, of which just under 5 million are digital households (24% market share). They have also pledged to have their entire footprint digital and VOD enabled by first quarter of 2006. What is more compelling to note about TWC than their scale is their seemingly fearless and aggressive embrace of iTV and VOD within their networks. 2005 saw TWC partnering early on with the largest iTV platform provider,

and subsequently conducting several widely documented pilot programs incorporating iTV ads linked to DVR showcases with advanced types of interactive functionality. Perhaps the most famous of these was their groundbreaking iTV pilot with Oceanic TWC in Hawaii, which allowed users to order pizzas for delivery directly from ads placed within network broadcasts. Clickable forms and dynamic user information was delivered to the local pizza franchise for fulfillment. TWC has piloted similar applications for RFI and polling in a number of eastern Designated Market Areas and has boldly announced plans to roll-out full iTV services and ad packages across their entire network over the next 24 months. At the time of this writing, TWC has announced their intention to deliver fully integrated iTV functionality to the New York metropolitan area by the end of 2006. What the network lacks in subscriber depth, it compensates for in features and technology. TWC is clearly setting the pace among the major MSO players for full feature iTV, DVR, and VOD integration.

Charter Communications

Charter is a driving force in the cable industry, and their response to VOD is no different. Charter has been at the front of standards-making decisions throughout the cable industry, weighing in heavily on everything from VOD platform encoding and delivery standardization through CableLabs, to working openly and willingly with reporting agencies to ensure their VOD tracking data conforms as closely as possible to industry best practices. The third largest MSO in the US, they have around 2.6 million subscribers in 27 markets on their network (14% market share), and are following the leaders by quickly going all digital. They offer and have tested VOD throughout their network. Up to now, their offering has closely resembled Comcast's with an FOD section entitled "iWantMore", which is available to any digital subscriber. Through integrations with Navic, akin to TWC's, they will begin to offer iTV interactivity, including telescoping showcase functionality, to advertisers this year.

Cox Communications

Cox is the fourth largest MSO in the US, with 2.3 million digital subscribers in 9 markets (12% market share). Of those, approximately 1.1 million subscribers use VOD services regularly. Cox has been a pioneer in the VOD and iTV spaces. They were the first MSO to standardize VOD platform technology, integrate iTV overlay elements, and aggressively promote FOD content through their FreeZone. Of particular note, Cox is currently the only MSO with health related FOD content, syndicated from Healthology. This is significant, as it currently represents the best option for health and pharmaceutical brands to sponsor meaningful VOD content. Like most of the other players, Cox will roll-out more robust iTV features in 2006, including RFI, polling technology, and interactive flagged commercials.

Cablevision and Adelphia

Cablevision and the troubled Adelphia Communications are roughly equal MSO's in scale. Cablevision has 1.4 million digital subscribers, and Adelphia around 1.8 million (8% and 9% market share, respectively). What is significant to note about these smaller players is their move to emulate the VOD and iTV offerings of the larger MSO's. In an environment where MSO's of similar scale in the US are not offering any VOD type services (some are not even planning!), these two companies obviously see the potential and reveal their urge to remain competitive in the space by developing the offerings. The future of both of these MSO's is unclear, especially Adelphia. After a year of deeply offensive corporate scandal, the company looks poised to be stripped and broken apart, and its assets sold into other MSO's networks.

Privacy act and MSO's

Of particular interest to advertisers is the Cable Communications Privacy Act (CCPA. Passed in 1984, it strictly governs what MSO's can and cannot do with personal information of their subscribers. While MSO's have very granular data about each set top box, its owners, and their usage, they are legally prohibited from disclosing them. In reporting on usage for VOD, many providers can supply gross measurements and tabulate them with household information. Those used to the rich granular data typically provided by web reporting packages will find that the CCPA prevents such information from reaching advertisers and content providers.

Level 2 – VOD platforms

The second level of companies in the VOD world is the **platform providers**, which provide VOD storage, software and delivery technology to MSO's. Typically, an MSO wishing to offer VOD to their subscriber base will contract with a third party platform such as SeaChange or C-Cor to build and operate the hardware and infrastructure required to encode, store, dynamically serve and track VOD content. The platform provider will install equipment and software directly into the MSO's head-end, the facility where digital and cable video is encoded, spliced with commercials, and delivered over the network.

These companies operate behind the scenes, selling, building, and managing the elaborate server arrays that encode, store, serve, and track all VOD content on an MSO's network. They make VOD function for the MSO providers. When a digital subscriber requests and views a VOD asset, the request and the asset, are handled by a platform server farm, often integrated into the MSO's head end facility. These same server farms are responsible for tracking and cataloging the data accumulated around VOD usage on the MSO networks, a position that is quickly becoming the central value point in the emerging industry.

There are essentially three major platform operators of note: **SeaChange, C-Cor, and Tandberg.** Let's examine them together.

SeaChange and C-Cor both have systems deployed at various head-ends for all of the MSO's. In fact, it is not uncommon for an MSO (Comcast for one) to have different platforms running different parts of their footprint, or in some cases have multiple platforms operating on the same local network, which is as much a result of equipment and specific services as anything else. Due in no small part to CableLabs standardization of VOD encoding and serving guidelines, equipment and services from all three major platform providers play well with each other.

Each of the three companies has made moves in the last six months to incorporate one or another type of overlay iTV functionality into its offerings, a key factor in the MSO's push to deliver these technologies to market. Tandberg in particular recently acquired GoldPocket, a leading developer of iTV overlay and dynamic data support for iTV and VOD.

All three firms stand poised at the front of the industry, as they really determine what types of functionality the MSO's can deliver on their networks. All three are already positioned to offer very robust iTV functions, and dynamic ad insertion and tracking, a feature advertisers are hungry for, but the MSO's are not yet willing to implement.

In many ways the platform providers are responsible for shaping the look and feel of the VOD world, a position of power, but one that forces them to wait for the slower, less agile cable industry to catch up.

Level 3 – reporting, tracking, buying
The third, critical piece of the VOD landscape is the emerging group of companies that services the advertisers and content providers by offering planning and buying, data collection and reporting services on a subscription basis. **Tandberg** has provided its own planning, buying, tracking, and reporting services for some time, and if your VOD assets reside on a Tandberg platform, you get their flavor. The platforms vary in the type and depth of data they collect and provide, some better than others. **Rentrak** has the grandfather status and has been providing cable and VOD tracking data reports to MSO's and their clients for many years. **Atlas OnDemand**, the newest player in the space and a product of Avenue A | Razorfish sister company, Atlas, is posed to radically change the way the whole industry accesses, buys, and uses VOD media. They have cleverly aligned themselves with the platform providers, and begun the arduous process of building software systems that will accept the wide, incongruous array of VOD data provided by MSO's and platforms, translate them, and provide one point report views to advertisers. They are currently the only company doing this and are also the only company offering tools for planning, buying, and tracking VOD material and the campaign level across multiple MSO's. Their alignment with SeaChange and C-Cor gives them the power to influence how and what data is collected, and in what format -- a significant position that is driving the buying and reporting side of the business to more closely resemble the online tracking universe Atlas comfortably inhabits now. In the works from Atlas is also a dynamic ad insertion management tool, which will offer incredible power to ad buyers, once the platforms and MSO's catch up to the technology.

If this progression continues, we can envision a time when integrated campaigns of rich media, internet ads, search, and video are planned, bought, tracked, and optimized by single source vendors like Atlas. And the various tactical units talk to each other. Web ads drive awareness of VOD offerings, which in turn enhance products and service awareness, driving people back to web sites for conversion. All of this activity is carefully catalogued and analyzed, optimized, refined, and redelivered on-the-fly, no less.

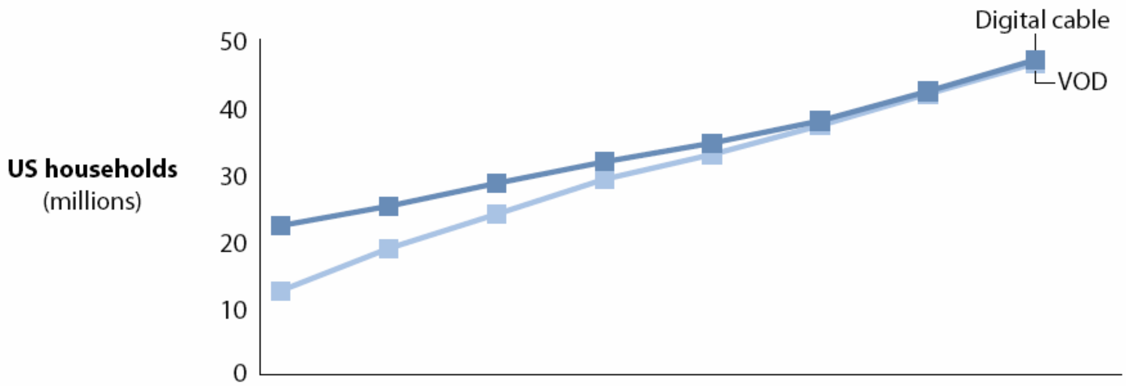
Scale and reach

VOD is here to stay. In almost daily articles, the media is reacting to and documenting the growth and appeal of the medium, a circumstance that has old guard media companies and broadcast networks scrambling to adapt to time-shifted and user-controlled viewing habits. At stake is no less than the future of TV use in the US, and perhaps the ultimate value of the 30-second spot, long the staple of brand marketers.

The diagram below, furnished by permission of Forrester Research, shows a widely accepted model of the current and future growth of digital and VOD in American homes:

Figure 1 Forecast: Video On-Demand Subscribers, 2004 To 2010

The spreadsheet detailing this forecast is available online.



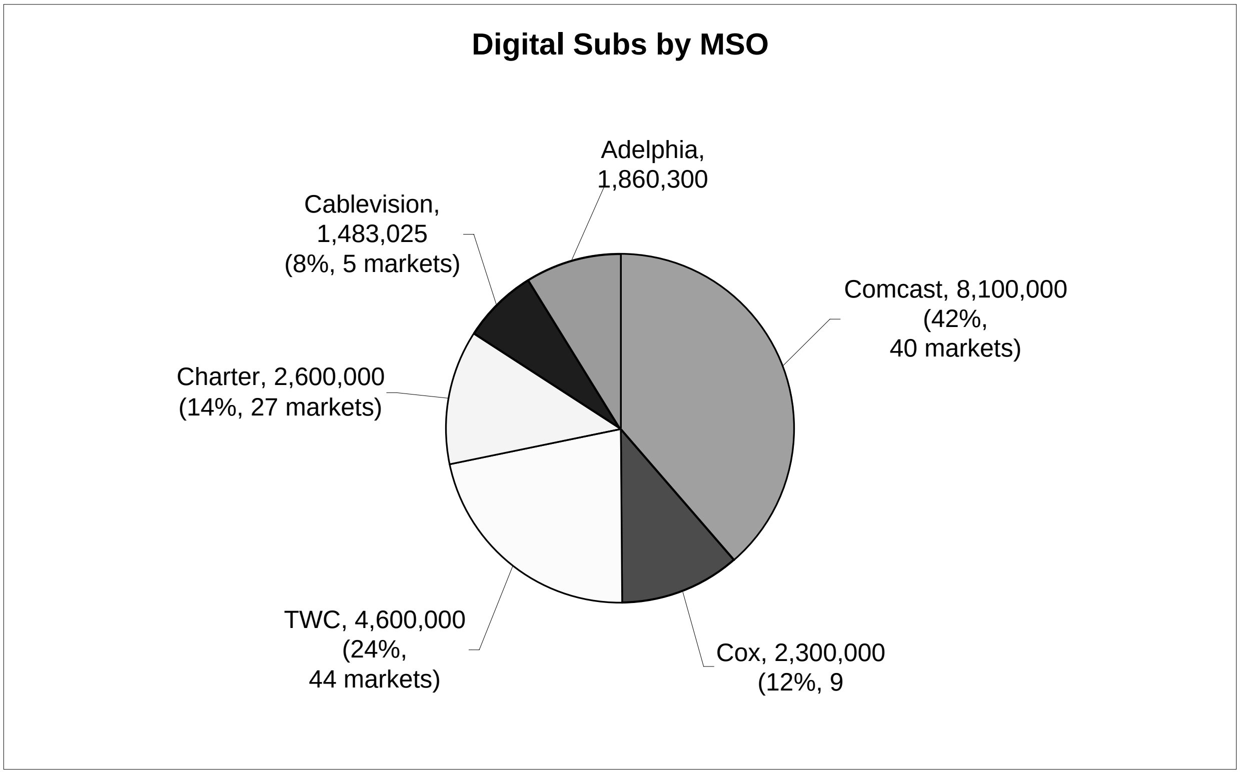
	2003	2004	2005	2006	2007	2008	2009	2010
Digital cable	22.2	25.1	28.5	31.7	34.5	37.8	42.2	46.9
Video on-demand	12.5	18.8	23.9	29.1	32.8	37.1	41.8	46.4
VOD penetration of digital cable	**56%**	**75%**	**84%**	**92%**	**95%**	**98%**	**99%**	**99%**

(numbers have been rounded)

Source: Forrester Research, Inc.

There is little doubt that all of the players -- MSO's, platforms, data managers, and advertisers -- need to embrace the shift now and prepare for a time when the old standard methods of reaching out to households with ad messaging no longer apply.

The following chart displays the MSO's relative sizes (courtesy of Atlas OnDemand):



The current scale and reach of digital TV and VOD are hard to ignore, and taken with the projected growth over the next ten years, the DTV and VOD universe will more closely resemble the Web in its user-centered functionality, addressability, and trackability.

Trends and the future:

Wild speculation abounds regarding current trends in VOD and what the ultimate outcome will be as the market doubles and triples over the next 10 years. Here are a handful of likely scenarios:

- **Addressable, clickable, user-driven:** The aggressive integration of overlay and iTV functionality, taken with dynamic insertion and the ready availability of subscriber data, signals a time in the not-so-distant future when the typical TV experience in the household resembles the current web surfing experience of today. Providers and advertisers will selectively target ad messages to specific groups and interests, weeding out the ad for a product or service not of interest to the viewer. Additionally, the majority of ads delivered will have some type of interactive functionality, from simple polling and RFI, to full blown ordering and fulfillment capabilities. As technology advances, MSO's, platforms, and advertisers will seek to integrate cross-channel offerings, enabling a viewer to submit an RFI from the TV set and receive a call from a representative instantly, or register for an online service from the couch, which they can access from a PC later. The total convergence of the Internet and iTV will mean seamless messaging and service can be provided to individuals on an unprecedented level for those who are ready to take advantage. Those who do will emerge as the new super-brands of cross-channel marketing.

- **Advertisers will get into the content business:** As the 30-second spot withers and transforms into a clickable bookmark that allows the viewer to access long form content of their own choosing, advertisers will inevitably have to get into the content creation business. Budgets will shift from expensive and untraceable spots, to scripted, directed and produced infotainment properties that interested viewers elect to watch, when and where they want. Under this scenario, the 30-second spot is simply a way to let the interested consumer know they can receive a much deeper, richer view of the product or service through VOD long form. Commercials become programs, and by default will have to offer up much more information on the products, ultimately (finally!) delivering tangible value to the consumer. Studies indicate that brand recall, familiarity, awareness, and purchase decisions are all greatly enhanced in viewers who elect to view even five minutes of long form information. The advertisers who spend more on their content will produce the more engaging programming, thereby capturing more viewers, and ultimately reaching higher levels of penetration, awareness, and sales conversion. One day, corporate marketing may look a whole lot like running a network studio, and television of tomorrow may closely resemble the 1950's model of a single broadcast property brought to viewers by a single sponsor (think *Extreme Makeover: Home Edition* and Sears).
- **When content is king and the user drives, brands will have to team up:** The above scenario will result in two things: One, some products simply won't work in long form, and two, many advertisers won't be able to afford production of the long form content. Enter the new era of co-branding and product placement. As the big budget advertisers produce entertaining content, they will in turn sell placement and sponsorship to smaller brands, much the way networks sell these things today. This will result in wide and various allegiances at the corporate level. When X major automaker sets out to produce four 30-minute segments about "Jill" and her car, myriad brands, from coffee sellers to clothing merchants, will have the opportunity to align with the auto maker/content producer. So don't be surprised when Jill shows up in Gap jeans carrying a Starbucks mug (both clickable items within the show).
- **The schedule is out the window:** When it no longer matters what time a show is broadcast, the emphasis inevitably shifts from time and location of the show to what the show actually has to offer. Networks, advertisers, and everyone else will find increasing pressure to produce truly great entertainment, since it will no longer be enough to shove it down the audience's throat in a time slot. Those that do not make the grade will find their libraries of video assets gathering digital dust on the VOD servers, and it will be easy to sort out which shows draw which audiences.

Who does VOD belong to

Given the structure of the industry, as we now understand it, and the likely direction it will take in terms of addressability and tracking, it seems clear that VOD belongs to interactive agencies and the viewers themselves. The viewers more and more will drive and shape how and what the industry provides, fundamentally changing the TV experience from passive, pushed, and proactive, to active, pulled and reactive. In order for this to work for advertisers, they will need to think more like interactive marketers do, giving privilege to relevancy, accountability, and user-centered design, long the hallmarks of interactive marketing. The obvious eminent domain is interactive agencies, who for many years have lived comfortably in the multi-channel, multi-tactic integrated world of the Internet, and who already have the infrastructure in place to handle dynamic campaigns and data analytics for optimization and audience intelligence. The content issue is where advertising agencies need to beef up, to fall in line with the rest of their offerings. Agencies who are able not only to plan, buy, track and report on VOD, but also actually to play a role in creating the content on behalf of brands, will set the tone for 21st century cross-channel and medium-aware marketing.

Conclusion

With an understanding of the shape and color of the VOD landscape, its players, and emerging directions, advertisers can understand their position in the space and begin to strategize about how best to capitalize on it. Interactive agencies are in a unique position with resources, knowledge and experience to participate in, and ultimately shape, the future of VOD, advertising and TV itself, and our clients will reap the benefits of this position.

Part two of this paper looks at what is involved in producing and running a VOD ad campaign from a number of perspectives. We will look at the shape of a typical showcase engagement with iTV functionality and how to go about creating and delivering assets to play nicely in VOD systems. And we will examine the strategic aspects of integrating VOD into a multi-tactic integrated marketing mix.

About the Author

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Patrick comes to Avenue A | Razorfish after spending the past five years as Assistant Professor of Design at Drexel University's College of Media Arts and Design. His areas of focus at Drexel spanned a wide range of topics, including commercial publication design, modern brand design and brand confluence, interior design, and retail fashion merchandising. Concurrently, Patrick kept his professional skills sharp in his role as President and Creative Director of Burroughs/Moorhead Design Inc., a design and strategic consulting company he founded with partner Brody Burroughs.

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About Avenue A | Razorfish

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