



# BRINGING OTT INTO CABLE'S WALLED GARDEN

Presented by:



A **Multichannel** SAVEN Partner

OTT (over-the-top) TV services are a serious competitive threat to cable TV's fundamental value to subscribers. But there is a cost-effective way to entice viewers to stay with cable—by bringing OTT services into the industry's "walled garden." Read on to find out how.

## INTRODUCTION

Once upon a time, TV signals were only available to viewers off-air via home antennas. And lo, the quality and reliability of signal reception were poor to nonexistent for many TV viewers. So the enterprising among them built tall community antennas to better capture, amplify, and distribute TV signals to themselves and their neighbors—and the cable TV industry was born.

Even with the advent of HDTV, Blu-ray discs, and the Internet, this fundamental value proposition has remained at the heart of cable TV's sales appeal to subscribers—until OTT streaming video hit the scene, that is. By offering viewers real-time access to quality TV programming—some of which, like Netflix's acclaimed *House of Cards*, is not found on broadcast TV—OTT has become cable (and satellite) TV's first real competitor. The result? OTT industry leader Netflix now has 75 million subscribers worldwide, and that number is still growing.

The bad news: Add to this scenario the impact of rising cable TV rates and the trend towards "cord cutting" by fed-up consumers, and cable's core subscriber base is declining. According to *The Wall Street Journal*, the US pay-TV industry (cable, satellite, and fiber) lost 357,000 subscribers in the third quarter of 2015 alone.

The good news: Cable TV can come to terms with OTT by applying the old adage, "if you can't beat 'em, join 'em." Specifically, cable can woo OTT users back into their MSO's walled garden by planting OTT services within that garden.

## THE OTT THREAT: WHY CABLE IS RIGHT TO WORRY

Netflix and Amazon Prime OTT video services are not a threat to cable TV because they exist, but rather because they offer content not available in the current cable TV channel lineup. Cable TV subscribers can't watch OTT using their traditional cable set-top boxes (STBs). Instead, they have to watch OTT through Internet-connected smart TVs or by using standalone OTT digital media players and OTT devices with STB functionality ("OTT STBs") made by Apple TV, Google

Chromecast, and Roku, among others. Roku is so popular with consumers that research firm IHS predicted 31 million retail OTT devices would be shipped worldwide in 2015, compared to 30 million IPTV STBs shipped by pay-TV services.

Whether consumers watch OTT video using smart TVs or OTT devices, OTT is a threat to cable TV because viewers tune in using a device that is not their MSO's STB. Once viewers adapt to leaving cable's walled garden to watch Netflix's *Orange Is the New Black*, it will be harder to get

them to come back inside and to convince them to continue paying each month for the privilege.

**173 million Americans viewed OTT content in 2014, and that number is projected to hit 199.6 million in 2019.**

“Sixty percent of current US broadband traffic is IP video such as Netflix and YouTube,” says Brent Smith, president and chief technology officer of Evolution Digital, a leading manufacturer of integrated IP solutions for the cable TV industry. “The public’s appetite for OTT is made plain by this percentage.”

But that’s not all. According to Statista.com, 173 million Americans viewed OTT content in 2014, and that number is projected to hit 199.6 million in 2019.

“The numbers don’t lie,” says Smith. “OTT is really catching on with US TV viewers. In particular, the Tier 2 and Tier 3 MSOs we work with feel helpless in the face of the growing OTT trend, because they lack the Tier 1s’ deep pockets for responding to competitive threats. They know that OTT is undercutting the fundamental sales argument that has made cable TV successful for decades. But what they don’t know is how to get those consumers back into their walled garden while providing them with the OTT content they clearly want.”

**WOW! (WideOpenWest) is a US Tier 2 MSO that is feeling this pain.**

“Consumers want access to OTT in addition to cable TV, and what consumers want they usually get, no matter how they

get it and who is affected,” says WOW! chief technology officer Cash Hagen.

The challenge for MSOs like WOW! is to fulfill this desire for OTT in a way that keeps customers within an MSO’s walled garden without increasing the company’s per-household equipment, deployment, and maintenance costs.

“After all, rising cable costs are motivating some subscribers to cut back on cable (‘cord shavers’) or drop us entirely (‘cord cutters’),” says Hagen. “If we are to survive, we have got to reverse this trend while including OTT.”

For MSOs of all sizes, the simplest solution to OTT is to bring OTT service to their subscribers’ in-home viewing systems. In such a perfect world, viewers would get OTT services like Netflix and Amazon through their MSOs in addition to the broadcast (local/network), specialty (cable-only, like HBO), and Video On Demand channels that they already source through their cable TV subscriptions. The theory is that “one-stop shop content aggregation” will keep subscribers satisfied and happy to continue paying for cable each month.

This kind of viewing approach, integrating linear content and OTT, is called a “hybrid system,” and MSOs worldwide are exploring the options. In fact, some hybrid solutions already exist and are in use.

“The problem is that many of them are too expensive for cash-strapped Tier 2s and Tier 3s, especially when it comes to retaining cost-sensitive cord shavers and cord cutters who want to pay less, not more,” says Smith. “Hence, the goal for Tier 2s and Tier 3s is to find a hybrid linear/OTT solution that delivers what subscribers want while minimizing CapEx and OpEx costs for MSOs.”

## WHAT HYBRID SOLUTIONS ARE AVAILABLE TODAY?

It clearly makes sense for cable MSOs to add OTT to their walled gardens and to provide subscribers with the necessary equipment to view this content using cable-supplied technology and software. So what are the options?

“For those subscribers who put service above cost, such as accessing 200-plus channels and whole-home DVRs, the hybrid STBs offered by major vendors like ARRIS can do the job,” says Hagen. But MSOs have to consider the costs of these premium hybrid STBs, which include not only purchase costs but also the costs associated with installing them in consumers’ homes.

“We have to pass this cost on to the subscribers, which boosts their monthly bills,” says Hagen. “As such, premium hybrid STBs are not an affordable solution for retaining customers who are already suffering from ‘bill fatigue.’”

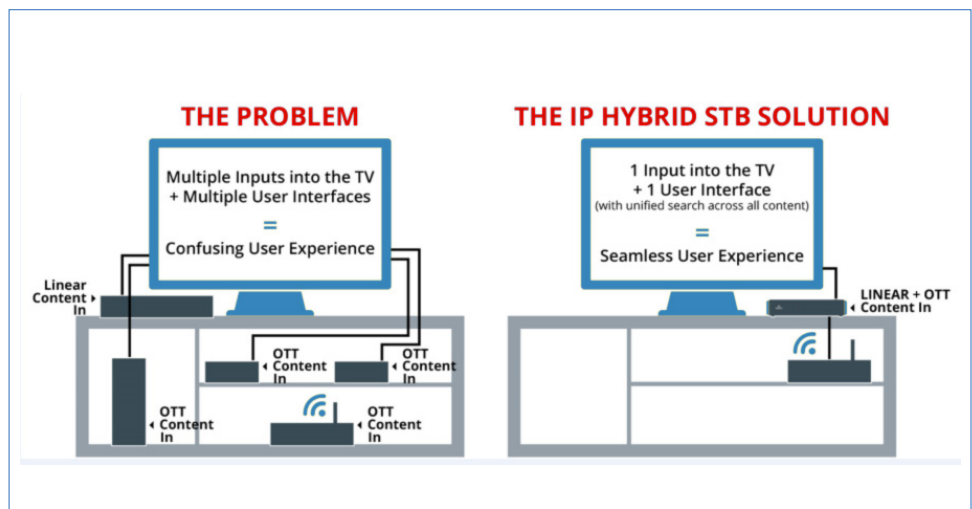
“Some Tier 2s and Tier 3s have gone as far as to buy consumer OTT boxes

such as Roku from Best Buy and to lease them back to their subscribers as MSO-supplied equipment,” says Tom Lambrecht, executive vice president of sales engineering at Evolution Digital. “Of course, this means that the subscribers have to switch from one box to another as they move from cable to OTT. But at least the MSO is keeping their total TV viewing within the family, so to speak.”

What Tier 2s and Tier 3s really need is an economical hybrid STB—one that can access QAM linear TV channels and IP OTT services on a single platform. This kind of STB should come with an integrated program guide, so that viewers can search and choose the TV channels they want using a single remote control and unified program guide without having to move from one box to another.

Think of this STB as the video version of an AM/FM radio—one that puts old and new video services into a single cable-supplied unit controlled by a single user interface.

## How the Hybrid STB Solves User Confusion



"This is the way to keep cable TV subscribers within your walled garden, just by supplying everything they want within this space," says Lambrecht. "After all, consumers are already confused enough by technology. They don't want to have to use multiple boxes and remotes if they can watch HBO and Netflix using a common platform."

**We chose and have deployed the Evolution Digital IP Hybrid STB in our various Caribbean MSOs precisely because it meets all of these requirements, and does so very cost-effectively.**

*– Luciano Ramos, Cable and Wireless*

#### **THE NCTC'S AFFORDABLE HYBRID STB SOLUTION**

The National Cable Television Cooperative (NCTC) is the industry group that steps up to bat for Tier 2s and Tier 3s, and it does what it can to help them stay competitive in the changing media landscape. So when the NCTC endorses what it sees as an affordable hybrid STB solution for smaller MSOs, these Tier 2s and Tier 3s audiences pay attention.

The NCTC has struck a hybrid STB partnership with Evolution Digital. Under the deal, Tier 2s and Tier 3s that belong to NCTC can purchase Evolution Digital's TiVo-powered IP Hybrid STBs at a reduced cost.

"NCTC is proud to partner with Evolution Digital to give our members another way to offer a superior entertainment experience," says Rich Fickle, president and CEO at NCTC. "[We developed the Bravo platform](#) to allow cable operators access to what their customers are asking for, but at a price point that is accessible for the provider."

#### **EVOLUTION DIGITAL'S IP HYBRID STB**

Evolution Digital's Brent Smith refers to the company's IP Hybrid STB as the cable TV industry's "game changer." But the unit could also be called a "game restorer," because this hybrid STB restores MSOs to their superior competitive position in the content provision marketplace. With its ability to provide customers with a single remote-controlled STB for accessing OTT and linear TV using TiVo's proven program guide and search technology, the Evolution Digital IP Hybrid STB brings OTT into cable's fold. Netflix and Amazon become two more reasons for cable subscribers to stick with cable, rather than to leave it behind.



*OTT becomes yet another advantage for cable with Evolution Digital's IP Hybrid STB, which bridges the divide between OTT providers, MSOs, and video display devices.*

The IP Hybrid STB includes HDMI, MoCA, Ethernet, AV, and RF ports. The unit supports Rovi-Powered Guide and TiVo Experience and enables universal searching across all content libraries. Add its ability to work with cloud-based DVRs and support an MSO's move to be part of all-IP content distribution (<http://evolutiondigital.com/2016/02/value-and-benefit-of-transitioning-to-all-ip-distribution/>), and this STB is the right choice for all MSOs, especially those Tier 2s and Tier 3s that can benefit from the reduced equipment purchase costs provided by the NCTC/Digital Evolution partnership.

"Our IP Hybrid STB really meets the OTT challenge and turns what was a disadvantage for MSOs into an advantage," says Smith. "This is why Evolution Digital has sold three million IP Hybrid STBs to date, and more are being ordered by MSOs every day."



**Evolution Digital's IP Hybrid STB.** Evolution Digital's IP Hybrid STB harnesses the power of TiVo's proven guide and universal search functions. It allows Tier 2 and Tier 3 cable operators to provide top-quality OTT and linear content in an integrated platform, thus simplifying choices for subscribers.

"Our IP Hybrid STB powered by TiVo integrates the operator's cable channel line-up with the leading OTT services to provide viewers with a seamless viewing experience," says Marc Cohen, executive vice president of sales at Evolution Digital. "Our great relationships with TiVo and NCTC now give operators with membership in the NCTC an affordable option for delivering our leading technology without integration fees, but with all the same innovative features TiVo offers."

(Evolution Digital also provides its own IP Video and video on demand solution, known as [eVUE-TV](#).™)

In other words, the Evolution Digital IP Hybrid STB puts cable TV and OTT on one platform, which viewers access through one box with one remote control. Because it integrates TiVo's proven technology, this hybrid STB is easy and intuitive for consumers to use. And because it does not come with an onboard DVR that adds to the overall cost, it's affordable for MSOs to buy and lease this STB to penny-pinching subscribers. Through its relationship

with TiVo, Evolution Digital has secured integration agreements with OTT providers such as Netflix and Amazon so that its IP Hybrid STB is able to deliver leading OTT services from the get-go.

"At the same time, Evolution Digital IP Hybrid STBs can be configured to support an all-IP platform, including live linear, VOD, and a cloud-based DVR, when it becomes available," says Lambrecht. "So not only is this hybrid STB affordable today, but it is also future-proof and expandable for tomorrow if and when cable moves from hybrid linear/IP to all-IP."

## FINDING THE RIGHT HYBRID STB

The Evolution Digital IP Hybrid STB is a good example of an affordable hybrid STB that satisfies the NCTC's requirements for an OTT-embracing solution. It also provides a good point of comparison for Tier 2 and Tier 3 MSOs quizzing vendors about their own hybrid solutions.

In doing such market research, MSOs need to ask vendors the following questions:



- How much does this hybrid STB cost?
- Does this box work with the NCTC's Bravo platform? If so, are there any blanket price reductions available?
- How easily does the box integrate with an MSO's existing cable/Internet plant?
- How much does this hybrid STB reduce the cost per home for deployment and provisioning?
- Does this hybrid STB come with an easy-to-use, industry-tested program guide and search functions?
- To which major OTT providers does it provide access?
- Does the box have a future path to a cloud-based DVR and all-IP functionality?

"It is important for hybrid STBs to hit all of these marks," says Luciano Ramos, vice president of TV/OTT, technology innovation and strategy at Cable and Wireless Communications. "We chose and have deployed the Evolution Digital

IP Hybrid STB in our various Caribbean MSOs precisely because it meets all of these requirements, and does so very cost-effectively."

## SUMMARY

IP Hybrid STBs are an effective, quick way for MSOs to integrate OTT services into their existing linear walled gardens.

In the near term, such boxes will help Tier 2s and Tier 3s keep their OTT-seeking subscribers happy by providing an affordable, convenient one-stop shop for all the TV channels viewers want to watch. In the long term, hybrid STBs give even the smallest MSOs a clear path to cloud-based DVRs and all-IP content provision. With this model, OTT content becomes part of an MSO's value proposition instead of a competitive threat undercutting its value to cable subscribers. ■

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