TAKEAWAYS FROM THE NETFLIX MODEL

How can content providers still drive revenue without raising prices on their existing customer base? Ed Popow, principal, IoT and OTT platforms, goTransverse, makes the case

The media and entertainment industry has undergone significant changes over the last 10 years. Between the onset of new streaming services like HBO GO and Amazon Video and changing consumer demands for more control and convenience around their consumption options, cable and streaming providers are having to find new ways to stay competitive amid an increasingly diversifying ecosystem.

In fact, a PwC report found that the number of consumers who could see themselves subscribing to a cable provider in the following year dropped from 91% in 2014 to 79% in 2015. It also found that 79% of US consumers subscribed to some sort of pay-TV in 2016 but 23% of those subscribers engaged in cord-cutting activity in the past year.

But how does one stay relevant and continue to drive top-line revenue in an environment that's changing so rapidly? The answer lies not within the content that's put out, but rather within the revenue model that supports it. Let's dive into this a bit more...

Most media providers today offer a subscription revenue model because it's convenient for the customer and enables the business to predict revenue through recurring sales. But at some point, monthly payments will likely need to increase to accommodate for fluctuations in the economy, new competitors, the price of adding content, etc. When that happens, customers might not react positively.

As an example, take what happened to Netflix. In April 2016, the company announced that customers who had been 'grandfathered' into a plan of $7.99 per month would start having to pay $9.99 per month, beginning in May. This resulted in an unexpected increase in cancelled subscriptions, causing the company to miss its Q2 projections and experience the most significant drop in shares since October 2014.

Although such a negative reaction to a subscription price increase is rare, raising prices alone is not the only option when it comes to driving future revenue growth.

With a usage-based model, companies can charge customers based on their use of a service or product, rather than a fixed monthly price. Let's say a customer binge-watched House of Cards in March but was out of town for a few weeks in April. The latter bill would be smaller than the one in March since the customer would only be billed for what they used. This gives them the ability to manage their monthly payments on a month-to-month basis according to what they consume. Another option for media and entertainment providers is a combination of a subscription and usage revenue model.

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Monetisation opportunities
For cable and over-the-top (OTT) providers, this option offers a variety of monetisation opportunities. Companies can offer a monthly subscription at a flat rate and then offer a variety of usage-based services to supplement the plan. In addition to helping companies take advantage of added revenue streams, the combination model empowers them to proactively reach out to customers with a usage update, upsell and/or cross-sell opportunity when they're nearing the cap for their current plan. If customers don't scale back on their usage or upgrade to a bigger plan, providers can then charge for overages.

This may be the revenue model of choice for the Comcast/Netflix partnership. In a joint announcement, the two expressed plans that will bring content from Netflix onto Comcast's X1 platform, "providing seamless access to the great content offered by both companies".

Combination revenue model
This gives Netflix access to millions of potential new customers and may help Comcast keep some users from ditching their cable subscription. While the companies haven't disclosed pricing or a revenue model associated with the new capability, the combination revenue model is an option they may be considering.

For cable and OTT providers who want to stay relevant in today's increasingly crowded market, adapting to consumer demands and having a flexible pricing model in place is key. No matter which model media companies implement, be it a subscription, usage-based or combination of the two, it should support the company's growth and have the flexibility to scale with changing market demands.

By taking into account where the company is headed, how they can best serve their customers and the type of content they offer, cable and OTT providers may find that the revenue model they currently have is well overdue for a change.