2022
APRIL

Safeguarding quality of service and maintaining customer satisfaction for pay TV operators

Dataxis market survey on video distribution and operators' practices

Produced by
Dataxis

Introduction

In order to meet ever-changing customer needs, maintain a high quality of service, differentiate themselves from the growing competition, and limit the level of costs, pay TV operators are increasingly being forced to make strategic operational choices.

In this study, we will dive into all the challenges faced by TV service providers in their daily operations, to understand which elements of their activity are most valuable when it comes to safeguarding quality of service and maintaining customer satisfaction at the highest possible levels. Which challenges create the most pressure for operators? How can innovation and evolving technologies ease the pressure on TV operators by reducing costs, accelerating problem solving and boosting operations?

Context

Dataxis surveyed a panel of media industry executives during Q1 2022 to understand the challenges they face, to see how they manage their TV operations, and gain insight into their approaches to operations management, with a focus on the role that externalisation and automation could potentially take.

This document presents the result of the survey, highlighting the main issues faced by operators and the potential solutions that can be implemented to solve them effectively.

The report is complemented by an analyst overview detailing the global state of pay TV and the evolution of revenues, ARPU market structure and competition to underline expected market evolutions.

Executive summary

TV and video operations face a growing number of challenges as operations gain in complexity, driven by the need to deliver hybrid services combining broadcast and IP, to fasten archiving, content production and valorisation, and, in general, to meet customers' heightened expectations of greater flexibility.
The media landscape is being transformed both by changing patterns of consumption and by the arrival of new players at different stages of the value chain competing with existing players and forcing them to adapt their offers to remain competitive.
For TV service providers, this complexity has put pressure on costs, without any guaranteed increase in incremental revenues.

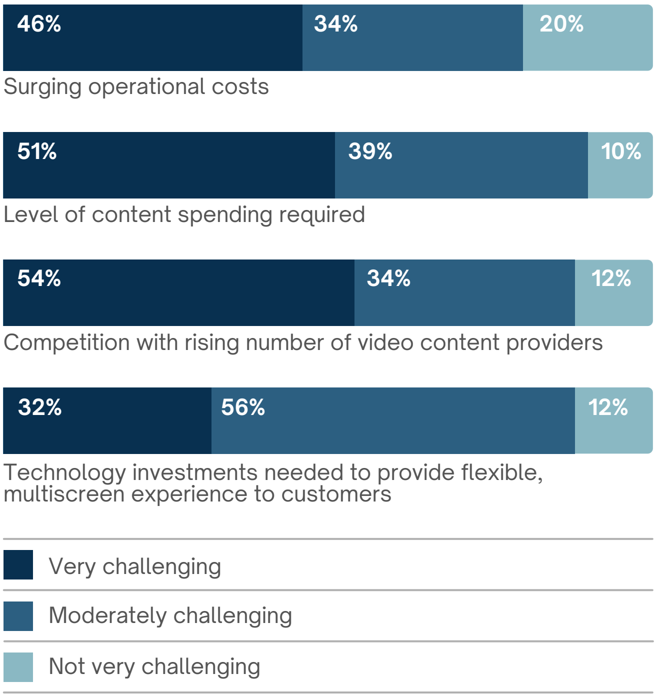
At the same time, increasing competition means that service providers need to maintain a high quality of video service and keep customers happy to prevent churn. These findings are highlighted in the first part of the study, the survey analysis which shows how operators perceive the evolving conditions of their operations.
These observations are supported and explained in depth in the TV and video market analysis that constitutes the second part of the report. The market overview focuses on the downward trend that has been observed in pay TV operators' revenues and its impact on operators' ARPU following the emergence of OTT services. Across all regions of the globe, new actors have emerged, challenging existing operators with flexible and affordable OTT video offers that have driven customers to demand services combining advanced usage features and lower subscription costs.

As shown in the report, the combined needs to improve the quality of service, and to control and optimise the cost of TV operations, can lead many actors to externalise all or part of their technology and innovation activities. Such decisions can result in important economies of scale, but can also create a lack of control over parts of the activity and over future technological decisions. Operators fear the decrease in customer satisfaction, loyalty and overall retention that such service deteriorations could cause.

The survey results indicate that most TV operators already externalise some of their TV operations, although they do not plan to externalise all activities and that a range of key functions must be kept in-house. Automation can be an alternative to externalisation, but a majority of TV service providers have yet to automate the majority of technical functions of their TV operations.

The process could potentially be eased by the use of artificial intelligence tools, and while these are known and considered by many operators, most have not yet deployed AI tools in their activity. There is significant potential to implement AI to facilitate TV operations.

1. Among the many challenges faced by TV service providers (operators, broadcasters, ISPs and content owners), which constitute in your opinion the largest hurdles to overcome?



In recent years, the video distribution landscape has become increasingly complex and TV service providers such as operators, broadcasters and ISPs need to adapt their offers to the evolving demands of audiences for the most flexible access to content, on multiple devices, and on demand, at the most convenient time for them.

These evolutions in consumption patterns pose many challenges for TV service providers and can translate in higher operational costs, the need to increase investments in content acquisition and production or in technological developments to provide a flexible, multiscreen experience to their customers. TV service providers' operational costs are more likely to reach uncontrolled levels. Overall, a significant part of the pressure can be attributed to the rising number of competitors in the TV and video markets. New types of actors, content companies that used to work with distributors are now delivering their services directly to their viewers and competing head-to-head with pay TV operators.

The most important challenges are increased operational costs (a challenge for 80% of respondents), the amount of content spending required (a challenge for 90% of respondents) and competition with the burgeoning number of video content providers (a challenge for 88%).

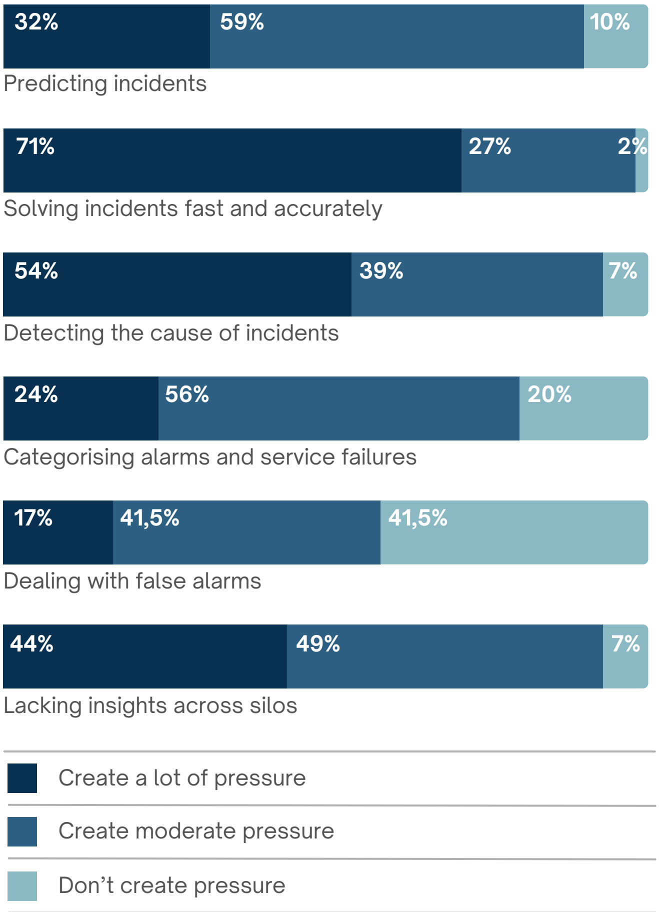
Key takeaway
The most important challenges are posed by surging operational costs, content spending and the rising competition.

2. Which features are essential for TV service providers to ensure customer loyalty and avoid future churn?

TV providers have to cope with rising costs to maintain a high quality of service, provide the features demanded by consumers and remain competitive against a vast and growing number of rivals. In this context, they need to make strong choices and when prompted about their priorities to ensure customer satisfaction and avoid future churn, industry insiders emphasised the importance of maintaining a high video quality of service, considered very important by 80% of respondents, and providing a wide range of content, regarded as highly important by 68% of respondents. A user-friendly UI, competitive pricing and responsive and efficient customer service are also deemed important to prevent churn for the majority of executives surveyed, but these options are slightly less essential for TV operations.

Key takeaway
Video Quality of Service, associated with a broad range of content, is the most important element of a service to keep customers satisfied and prevent churn.

3. Regarding day-to-day operations, which current aspects create the most pressure for companies in the media industry?

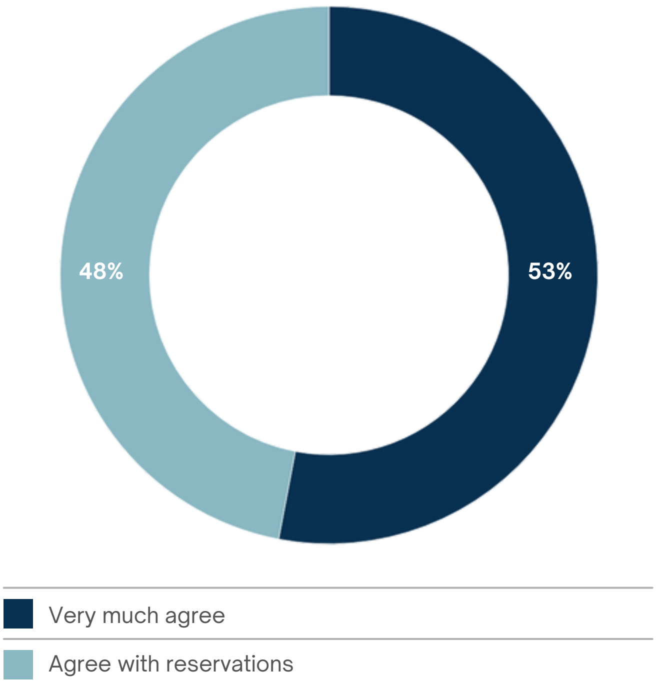


This need to deliver a high level of Video Quality of Service across multiple devices, for both linear and on-demand content, is extremely demanding for media companies. When confronted with this situation, respondents agreed that all proposed aspects of day-to-day operations present significant challenges. The survey shows that they have fully integrated the need to solve incidents fast and accurately and this aspect emerges as the most challenging element of TV operations, creating the most pressure for 71% of respondents. Detecting the cause of incidents is the second most important strain identified, creating a lot of pressure for 54% of respondents. Predicting incidents is the third incident-related problem highlighted by the operators surveyed. These three challenges are important because operators need to be able to predict problems before they occur, to react as quickly and efficiently as possible when some problems escape their first vigilance and to understand the reasons that created the problems to prevent them from happening again in the future. These three aspects are indeed the cornerstones of maintaining this high quality of service and preventing churn.

On top of incident management, the lack of insights across silos is perceived as a crucial shortcoming in day-to-day operations, as it creates a lot of pressure for 44% of respondents and moderate pressure for 49%.
Interestingly, dealing with false alarms is not perceived as the most demanding aspect for operators, as 41% declare that it doesn't create pressure.

Key takeaway
- For companies in the media industry, the most pressure is created from the need to predict, solve and understand incidents fast and accurately
- Lacking insights across silos is considered challenging by 9 out of 10 respondents

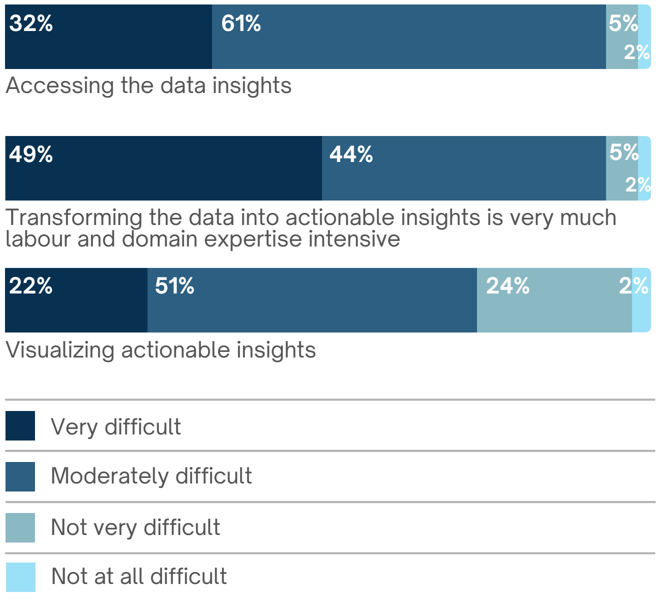
4. Would you agree that the lack of shared insights across silos hinders problem-solving processes?



The lack of information across silos is highly problematic and this issue is not underestimated by TV service providers, as all survey respondents agree that the lack of shared insights across silos hampers problem-solving processes. Of the respondents, less than half agree with reservations.

Key takeaway
All respondents agree that the lack of shared insights across silos creates a disadvantage and complicates problem-solving processes.

5. What is the most difficult about creating the cross silo data insights?

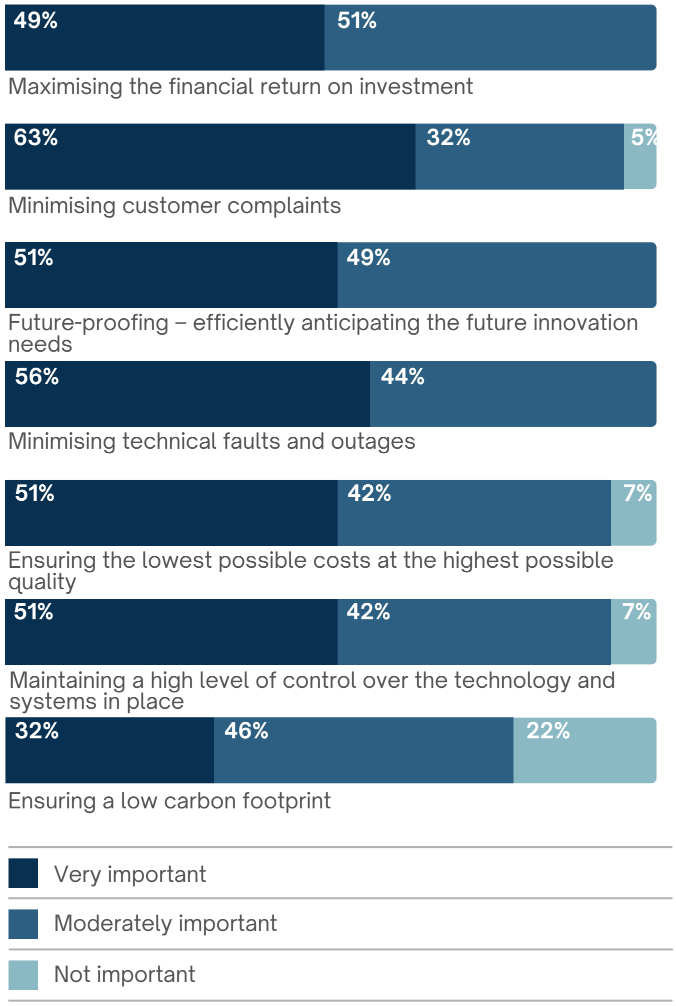


Operators face multiple challenges in creating the cross silo data insights. Specifically, respondents to the survey were asked to rate three challenges in terms of difficulty for media companies today. 93% of respondents agreed that accessing data insights creates difficulties and that transforming data into actionable insights requires a lot of work and expertise. Transforming the data into actionable insights is the most problematic as it is considered very challenging by 49% of respondents. On the contrary, the visualisation of actionable insights is somewhat more divided with 27% not finding this exercise difficult.

Key takeaway
Transforming the data into actionable insights represents a lot of work and operators are aware of the high level of expertise needed to do it efficiently and successfully.

6. When it comes to investments, whether in-house or managed by a third party company, where should the TV operators involved be focusing their attention on?

As operators need to address both rising content and technology costs and increasing consumer demands, investments must be chosen and managed with great attention, bearing in mind that TV service providers need to prioritise investments more than ever.



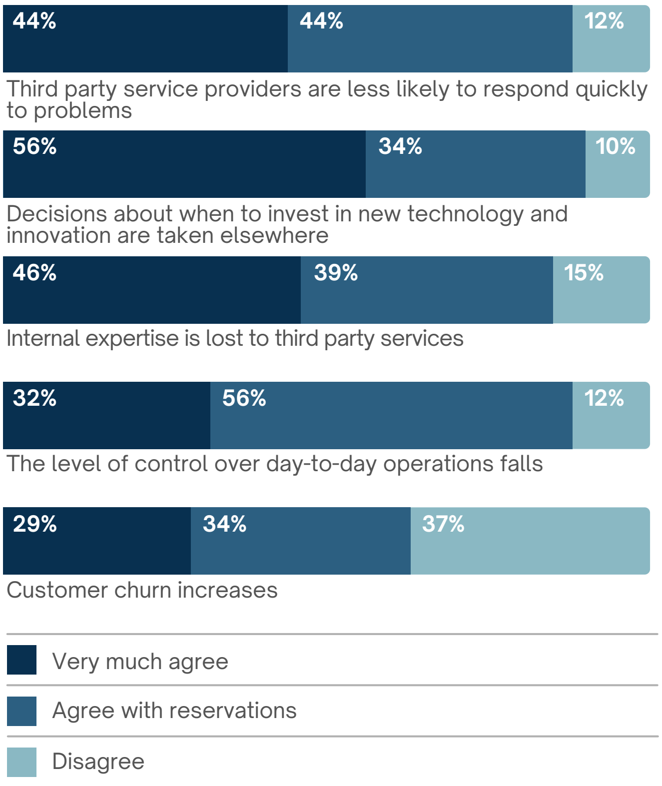
When asked which investment, whether in-house or managed by a third party company, they should focus on, the surveyed operators considered three priority commitments: firstly, minimising technical faults and outages was considered very important by 56% of respondents. Beyond that, service providers surveyed rated highly investments in technology and systems that will help to minimise customer complaints (considered very important by 63% of respondents) and meet future innovation needs (seen as very important by 51% of respondents). Future-proofing in this context means that service providers can prepare the transition to the latest technologies and possible future innovations in a gradual and controlled manner.

Ensuring a low carbon footprint and that technology and systems are environmentally friendly is not yet considered as the most important investment for TV service providers (not important for 22% of respondents).

A great deal of attention is paid to maintaining a high level of customer satisfaction, with the need to minimise customer complaints topping the list. This is closely linked to the quality of service provided, with low levels of faults and outages and the need to maintain control over existing and future technology operations

Key takeaway
Future-proofing and minimising technical faults and outages and therefore customer complaints are the key consideration in making investment decisions in TV operations.

7. In the event of a partial or total resort to third party technical solutions, what are the most apparent disadvantages?

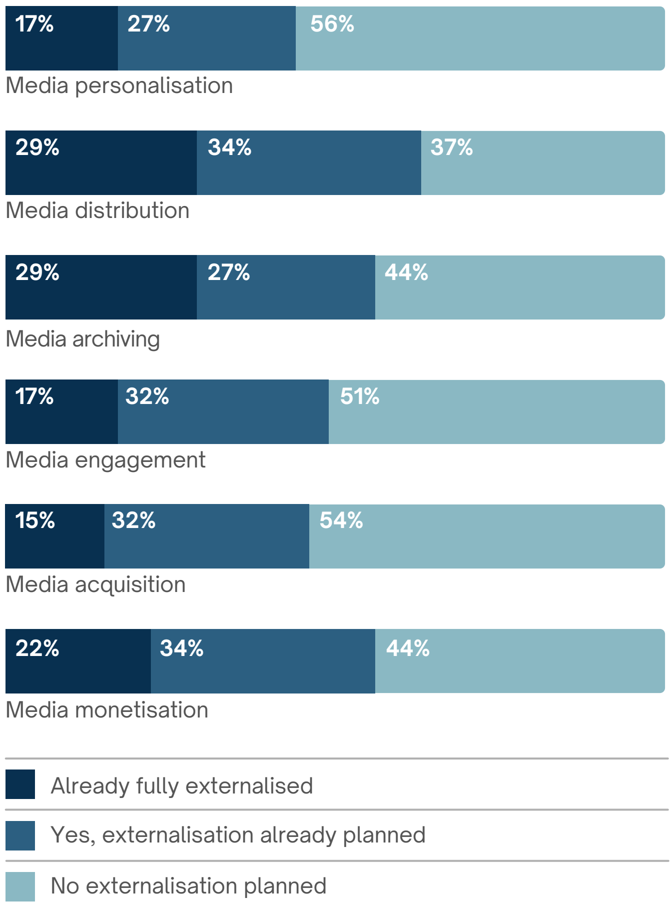


When asked to rate five potential disadvantages of externalising all or part of their TV operations, respondents were divided in terms of the importance they attached to each potential disadvantage.
The most apparent disadvantage of resorting to a third party for some part of operations is, for 90% of respondents, the loss of control over decision-making regarding the timing of investments in new technologies and innovations. 56% of respondents very much agree that this disadvantageous element is the most apparent drawback of externalisation, while 34% agree with reservations and only 10% don't see it as a risk.
The two other important aspects that could create disadvantages are the loss of internal expertise to third party services and the risk that third party providers respond less quickly to problems (for 88% of respondents).
The last disadvantage that was rated relatively high was that externalisation means that a part of internal expertise is lost to third party services.

Respondents had mixed opinions on whether externalisation resulted in increased customer churn, with 29% rating it as very disadvantageous, 34% as moderately disadvantageous and 37% as not disadvantageous. Overall, the use of third party providers can help TV operators to benefit from economies of scale through the use of shared technology, and this can enable them to adapt their operations to their needs and requirements. However, as discussed above, some TV service providers may be concerned about losing control of their operations and compromising the video quality of service expected by their subscribers.

Key takeaway
The potential loss of control over decisions and control over problem resolution are seen as the most disadvantageous elements that operators can face when externalising some of their TV operations.

8. Would you consider externalising the following aspects of video operations to a technical partner?

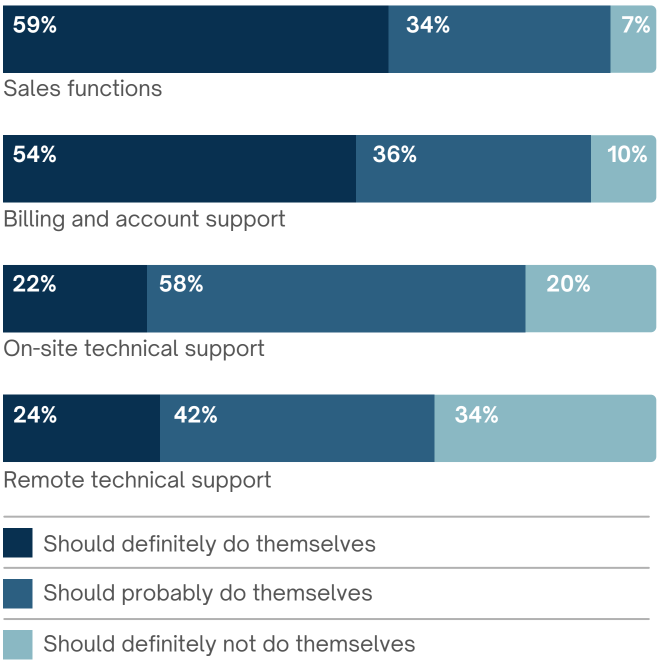


The video operation that most respondents would consider externalising is Media distribution, as 29% have already fully externalised the activity and 34% have planned it already.

Media archiving and Media monetisation are also among the most externalised activities, with 29% of respondents having already externalised Media archiving, 27% having it planned and 22% having externalised Media monetisation. Media personalisation, Media engagement and Media acquisition are not among the services that could be externalised quickly as no externalisation was planned for respectively 56%, 51% and 54% of respondents.

Key takeaway
Externalising at least some aspects of video operations makes sense, in particular Media distribution and Media monetisation. However, industry insiders confirm the importance to maintain control over significant aspects of media operations.

9. Which aspects of customer care operations should TV service providers continue to manage internally?



TV service providers were asked which of their customer care activities could be externalised or alternatively, kept in-house. Retaining functions in-house represents a non-negligible cost, and as seen, following the ever rising complexity of the market, cost is one of the main challenges faced by TV operators. At the same time, with externalisation they risk losing control over some aspects of their operations, and this could result in a decline in quality of service and customer retention.

In general survey respondents were in favour of retaining most aspects of customer care in-house, although responses imply that some aspects of customer care have more value when done internally.

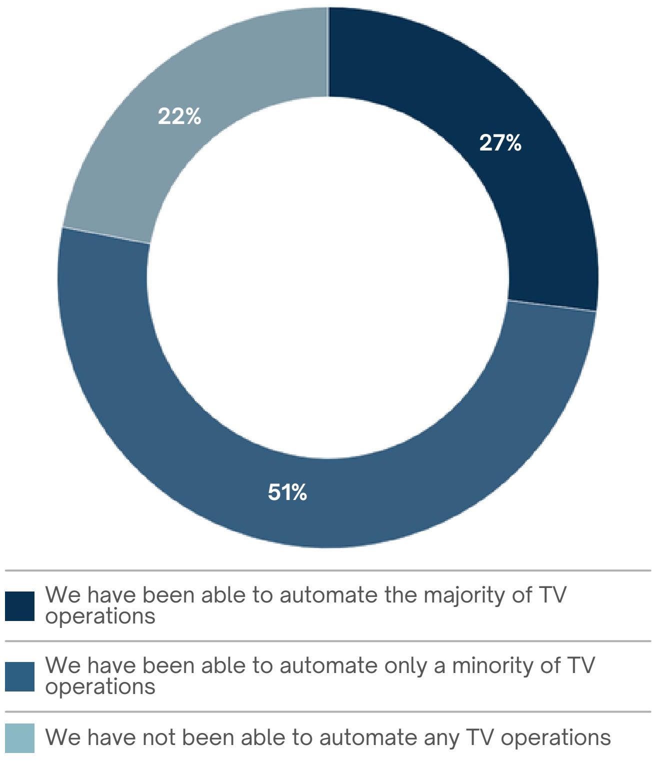
The most important tasks that operators should continue to carry out internally are sales functions, as well as billing and account support (59% and 54% of respondents consider that they should continue to carry these out themselves).

These observations show the importance given to these services by operators and their fear of deteriorating the quality of services offered to their customers.

What operators should definitely not do themselves is remote technical support, as expressed by 34% of respondents.

Key takeaway
Survey respondents broadly favour keeping customer care inhouse, particularly for sales functions and churn reduction.

10. Should certain components of television operations be kept in-house, and if so, to what extent have you been successful in automating them?



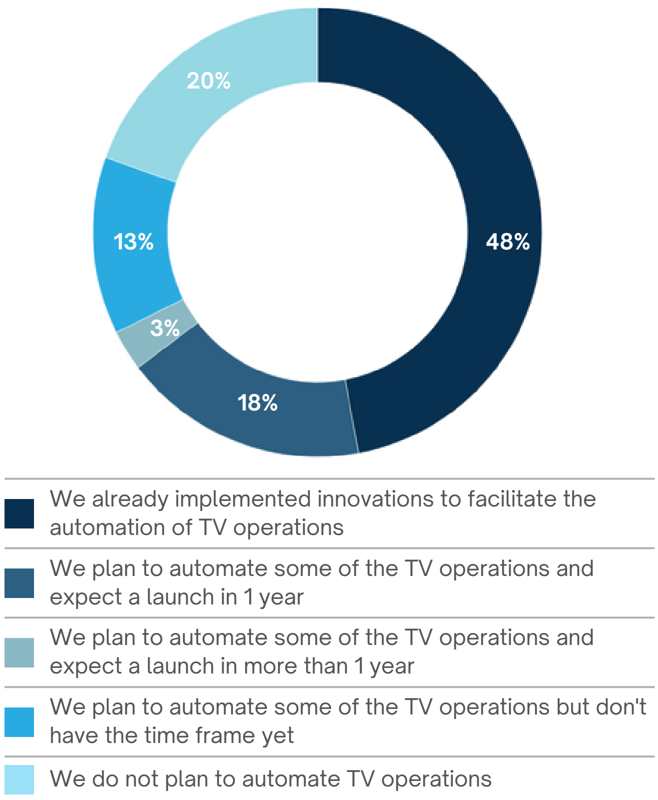
TV service providers need to arbitrate between maintaining operations in house, at potentially increasing costs, and externalising them with the risk of losing control. The automation of some internal functions could enable them to overcome this limitation by automating certain functions where possible.

Software-as-a-service (SaaS) tools can help operators implement third party innovations and control operating costs and expenses while limiting their own investment in innovation. Among respondents who wish to keep some elements of their TV operations in-house, automation could represent an attractive solution to lower the costs of keeping these functions in-house.

Asked about whether or not they plan to automate their TV operations, over three quarters of respondents indicated that they have been able to automate some of their TV operations. 27% have automated the majority, while 51% automated a minority only. This also means that 22% have not been able to automate any part of their TV operations. These results show that automation is already largely included in operators' strategy as a key pillar or as a tool to improve processes.
Our survey indicates that such solutions are gaining in importance for a wide range of players, but that the potential is there to go further.

Key takeaway
Most TV service providers are already automating at least some of their TV operations, with a majority of these automating only a minority of TV operations.

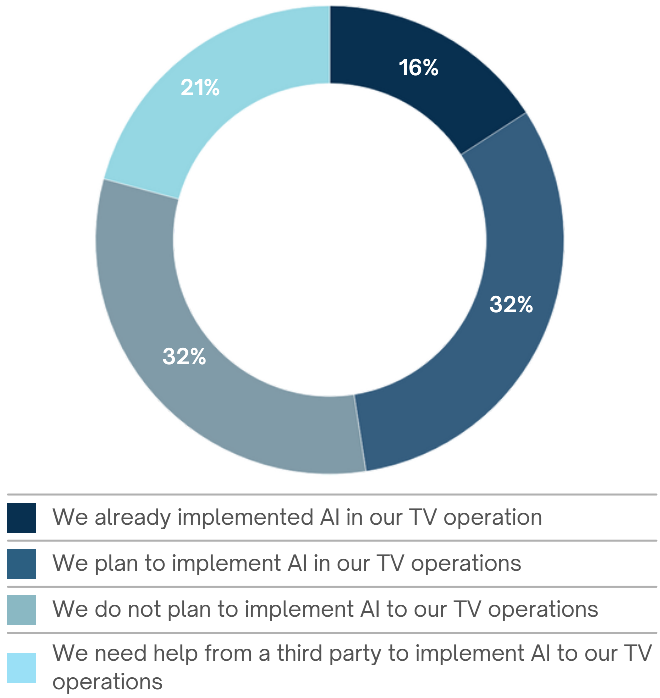
11. Do you plan to implement any kind of innovation to facilitate the automation of end-to-end television operations?



Automation can be a powerful tool to prevent unsustainable investments and ensure optimised externalisation of operations. When asked if they currently plan to implement innovations to facilitate the automation of end-to-end television operations, almost 70% of respondents have planned or started to plan the implementation of innovations to facilitate the automation of TV operations. The vast majority can already rely on these improvements in their daily operations (48% of total respondents). 18% of respondents plan to automate some of their TV operations within the next year and 3% in more than a year. 20% of the total sample do not plan to automate TV operations in the near future.
This therefore indicates a great interest from TV service providers in implementing innovations to facilitate end-to-end TV operations automation.

Key takeaway
There is considerable potential to expand the use of automation tools to optimise TV operations.

12. Artificial Intelligence shows great promise to decrease costs and increase efficiency. Where are you in your AI journey with regards to video distribution?



The use of artificial intelligence (AI) is not yet widespread within TV service providers. To date, only 16% of respondents have already implemented AI in their TV operations but it remains largely considered as 32% have planned to implement AI and 21% would need external help from a third party to implement AI. Only 32% have no plan to use AI at the moment.

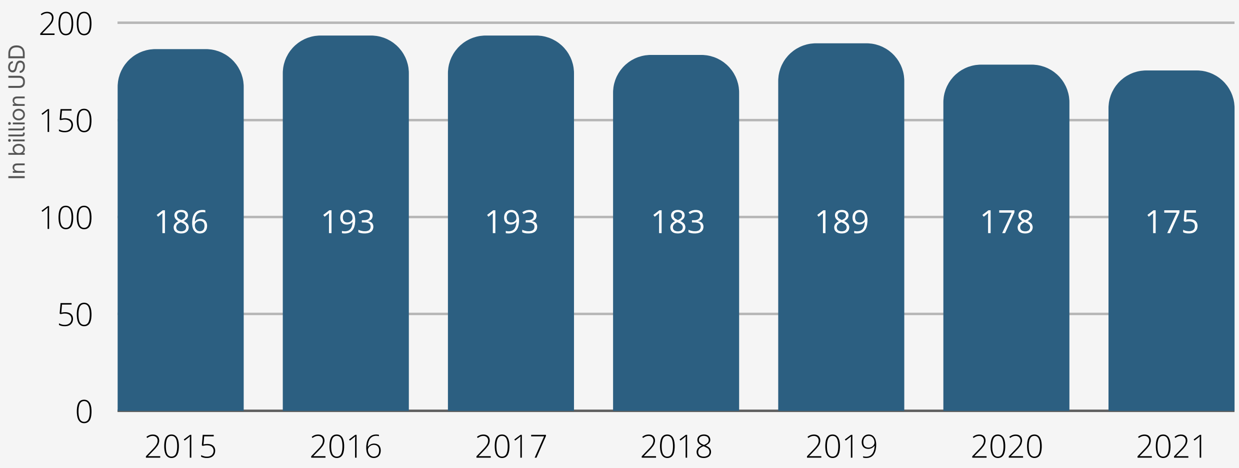
Industry specialists have not yet begun to make widespread use of artificial intelligence in video distribution, but its is being considered by the vast majority of respondents

Key takeaway
Although interested, a majority of TV service providers surveyed have not yet been able to include AI in their TV operations

The emergence of over-the-top (OTT) usage, the provision of television and video content over the internet at the request of individual consumers, is creating new challenges and pressurising pay TV operators' traditional distribution networks and offerings. OPEX continues to increase, driving TV and OTT providers to adapt their offer and build advanced video services at controlled costs in order to safeguard ARPUs and therefore maintain their levels of revenues.

PAY TV OPERATORS REVENUES UNDER PRESSURE

TOTAL DIRECT PAY TV REVENUES

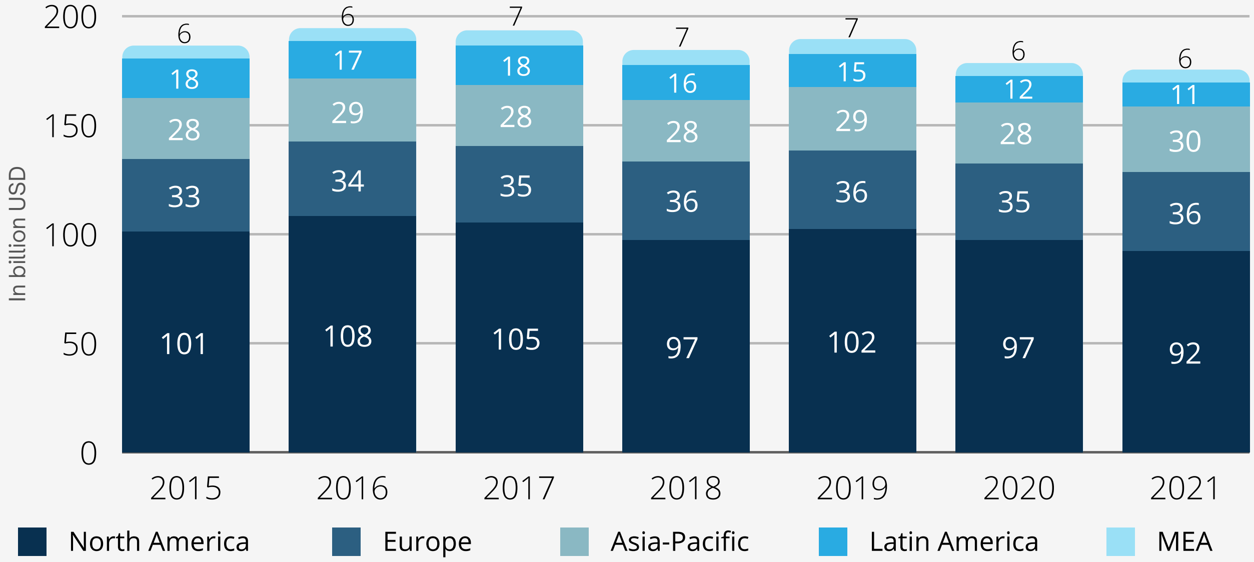


Source: **Dataxis**

The analysis of direct pay TV revenues worldwide shows a stagnation of revenues over the last five years, and the beginning of a decrease since 2019. Between 2020 and 2021 revenues from the provision of these services have decreased by approximately 2%, from $178 to $175 billion. Pay TV is defined here as the provision of TV channels, packaged in a range of different paying bouquets, and generally accessible via satellite, cable TV or IPTV technologies.

Although operators have globally started to complement their existing TV provision services with non-linear, flexible, multi screen options, revenues have been declining on the global level over the past two years. The evolution of demands and the rise in competing direct to consumer content providers are putting pressure on Pay TV operators' revenues.

PAY TV REVENUES BY REGION



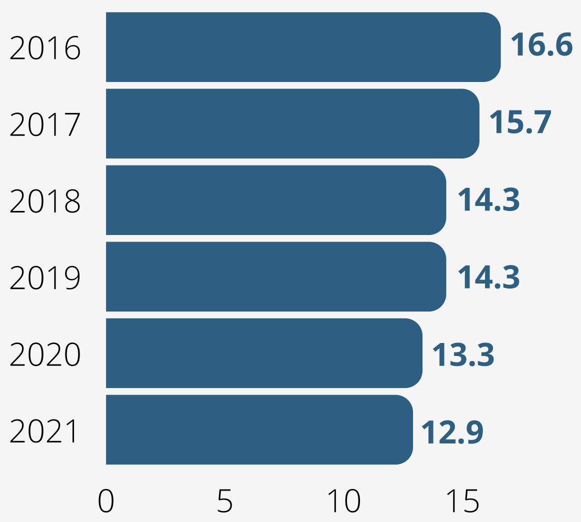
Source: **Dataxis**

In 2021, two countries, the USA and Canada, accounted for more than half of the total revenues generated by pay TV operators globally. This figure highlights the undisputed position of North America in video content distribution when it comes to revenues. Europe represented 20% of revenues, Asia-Pacific 17% and Latin America and Middle-East Africa weighted less than 10% each.

The downward trend is also most pronounced in North America, where pay TV markets had reached extremely high levels in recent years, and ARPUs were significantly high in these countries, home of the first cord cutters who switched from expensive cable or satellite TV subscription to more affordable OTT streaming services.

> Operators are now expected to deliver the full range of services and availability that consumers now expect, while revenues do not increase at the same rate, they will need to set priorities.

PAY TV ARPU



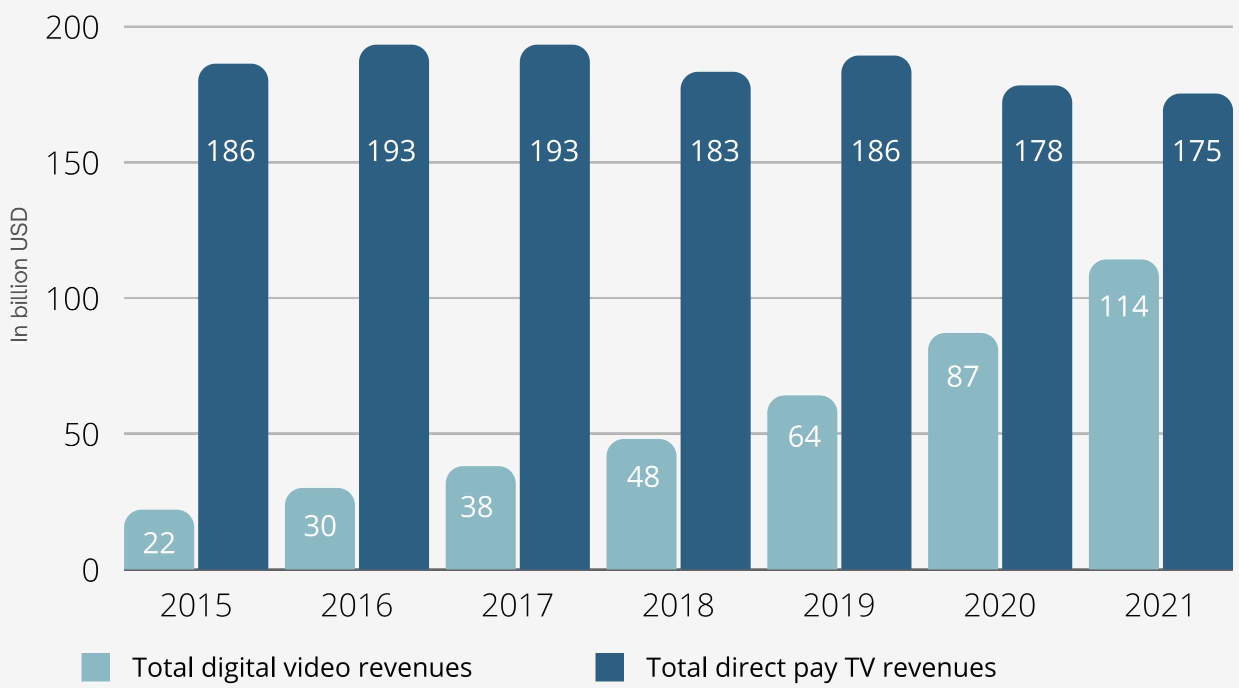
Source: **Dataxis**

The decline in TV operations' profitability can also be understood from the decrease in average revenue per user (ARPU) observed around the world. ARPU has fallen from almost $17 to around $13 between 2016 and 2021.

Decreasing revenues are earned for each pay TV customer.

> To maintain their levels of profitability operators need to increase the value of each customer by offering additional services, or lowering the costs of their TV operations.

DIGITAL VIDEO AND TV REVENUES



Source: **Dataxis**

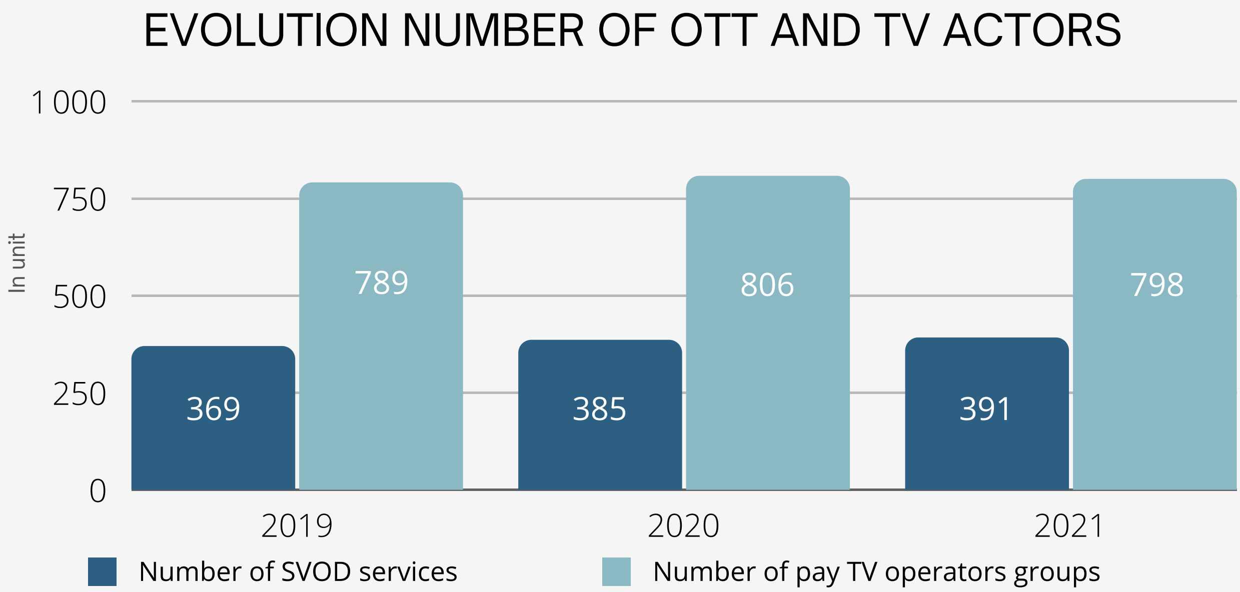
An important loss has come from the transfer of value from traditional pay TV to OTT video providers that took place in recent years. In 2016, digital video services represented less than 15% of total video revenues. In 2021 this figure amounted to around 40%.

While pay TV revenues were stagnating, the growth in OTT video revenues has been tremendous. While on the one hand, TV service providers have been able to take advantage of the innovation and market growth as they launched their own non-linear, flexible, skinny bundles OTT offers, another important part was captured by newcomers, standalone pure players or direct to consumer actors who previously worked with operators as their distributors.

In terms of costs, the increase in content costs, OPEX and marketing costs continue to represent a growing burden for operators.

The increase in content spending is triggered by the need for content providers to differentiate themselves from their competitors with exclusive content and place greater emphasis on originals. Investments in technology are driven by the need to provide advanced services, with an efficient and engaging user experience, great discovery tools and flexible, multiscreen services. Marketing expenditure must increase as operators need to stand out in crowded markets.

SURGE IN COMPETITION FOR OPERATORS



Source: **Dataxis**

The number of SVOD providers remains lower than the number of pay TV operators in 2021, representing almost 400 players, or slightly less than 50% of the total number of pay TV providers counted globally. Alongside the SVOD model, which has become unavoidable in video content distribution, other models are emerging, such as advertising based video on demand (AVOD) or video provision originating from broadcasters (BVOD). Actors providing these services can also be added to the count of newcomers in video distribution, and new competitors for pay TV operators. OTT is notably enabling new actors to launch direct-to-consumer offers, content owners such as studios, for instance Starz Play from Lionsgate, Disney+, or HBO max from Warner.

The number of SVOD providers has grown exponentially in recent years due to the lower costs associated with launching a direct-to-consumer OTT service compared to previous periods and due to their desire to create direct relationships with customers.The pace of launches has not diminished and although actors foresee that subscriber fatigue may derive from having to manage an overwhelming number of subscriptions, bundling options are also emerging to facilitate aggregation.

The COVID-19 pandemic has driven consumers further into the arms of streaming services. With the proliferation of hurdles looming in the operators' path, they will need to be able to respond efficiently in order to stand out in increasingly crowded markets. They need to find ways to rapidly and efficiently understand the demands of their customers, while optimising costs and productivity.

APPENDIX

Sources

The report gathers information from a survey conducted in February 2022 and figures from Dataxis internal database on media markets.

DEFINITIONS

Total digital direct pay TV subscribers	Total number of direct digital pay TV subscribers of an operator. Includes direct digital cable TV, DTH pay-TV, DTT pay-TV, MMDS, IPTV and OTT pay-TV subscribers, as well as subscribers to premium cable, DTH and IPTV packages.
Total direct pay TV revenues	Total revenues generated by subscriptions to direct pay TV services of an operator for all types of access. Includes revenues from direct cable, pay DTH, pay DTT, IPTV and pay TV OTT subscriptions.
Pay TV ARPU Television	The Average monthly Revenue Per User is calculated using total revenues for the quarter divided by the average number of pay TV subscribers of the operator, divided by 3. Revenues include on demand revenues.
SVOD and streaming service revenues	Revenues generated by monthly subscription fees to S-VOD and streaming services.
SVOD and streaming service subscribers	Subscribers paying a monthly fee to access a streaming platform. Does not include subscribers accessing the platform via partnership with telecom operators, free trial users nor shared accounts.
SVOD ARPU	Average monthly Revenue Per User of subscription based VOD platforms. The ARPU is calculated using total revenues for the year divided by the average number of SVOD subscribers in the country, divided by 12.

Divitel

About US

Divitel helps video and TV services make a quantum leap forwards in the profitability and efficiency of their video delivery by decreasing the dynamic complexity of ecosystems and building greener, future proof video distribution.
We help improve and optimise processes ranging from OTT to IPTV to DVB so that our customers can offer their subscribers the best service quality at the lowest possible costs. With customers all over the globe, Divitel applies over twenty years of focused video delivery expertise and offers hands on troubleshooting, system integration and operational services powered by a bionic, data-driven approach. Divitel has its own ISO27001 certified Operating Center in Apeldoorn, from which we remotely run customers' daily video services and we have recently been appointed as Global Innovator by the World Economic Forum.

Dataxis

About US

Dataxis is a global firm specialised in media, telecom and digital market research and conferences. More than 50 markets, 200 countries and 5000 actors are tracked every quarter now. Since 1994, the search for gathering detailed data led us to review every reputable source of information we could find and to set up a strong team of analysts. Supported by a reliable methodology, we collect, check and update thousands of data and forecasts using our powerful business intelligence platform. For 15 years, we have successfully provided our data and forecasts on a subscription-based model to the leading actors of the TV, Telecom and digital industry.