Part 1 - Building profitable pay-TV services through innovative subscriber management

PayWizard supports pay-TV operators across the world with subscriber and revenue management, from the earliest stages of engagement through to launch and beyond for innovative new services. As an expert in subscriber management, with strong technical partnerships spanning provisioning and content assurance, the first in our latest series of guides examines the key factors to consider when selecting a subscriber management system (SMS), ensuring you pick the system that is right for you and your business.

Key market trends for pay-TV operators

2017 is likely to be the year when the pay-TV industry signs up its billionth subscriber, according to data from ABI Research. But the growth of subscribers is only part of the story - the average revenue per user (ARPU) for pay-TV services is also growing. ABI Research found that in mature markets, improved ARPU is due to a growth in the proportion of customers with advanced pay-TV set-top boxes and upgraded high definition (HD) programming packages.

With broadband internet adoption rates at over 70% in large parts of Western Europe, and emerging markets adding new high-speed connections at the fastest rate in history, pay-TV providers are looking at great market potential over the next few years. The growth globally of Netflix, and regional players such as Maxdome in Germany and Clarovideo in South America, highlights the potential for disruptive newcomers to establish profitable business models.

Aside from the cost of gaining the rights to content and marketing, the single biggest factor in determining go-to market pricing and profitability is operational expenditure (OPEX). The factors impacting OPEX are varied and unique to the pay-TV operators' delivery methods, existing infrastructure and geography. However, successfully managing the subscriber relationship from service delivery, payment and customer support perspectives is absolutely essential.

In such a competitive market, it is becoming increasingly important for pay-TV providers to reduce the costs associated with managing subscribers. Through discussion with over 20 operators, PayWizard estimates between 5% and 8% of a pay-TV operators' operating expense (OPEX) is consumed by subscriber management activities. However, this figure can be as high as 12% during new launches and in certain geographic regions.

This estimation can vary upwards for organisations with large estates of set-top boxes, manual on-boarding processes and limited self service capabilities. The OPEX cost is further compounded by the expense of continually developing and supporting a single or multiple SMS. As one pay-TV operator we interviewed described, "…we are not and do not want to be a software developer – which is why our subscriber management system needs to just work as we expect and evolve in line with our business."

In the same way that enterprise resource planning (ERP) and customer relationship management (CRM) has become critical in order to successfully implement complex processes and better understand customers, SMS are having a dramatic impact on the viability, competitiveness and profitability of pay-TV service providers. Competing against pay-TV rivals with sub 10 dollar/euro pricing requires entrants to strip away operational costs associated with subscriber management.

The first part of our guide aims to highlight the core functionality of an SMS and the key criteria that can help in evaluation and selection processes. In part two, our guide takes a closer look at how specific departments within a pay-TV operator can gain significant benefits to processes, reduce costs and focus on core activities without technology limitations.

1 billion
pay-TV subscribers by 2017*

Over 70%
Broadband adoption in Western Europe

Understanding the elements of an SMS

SMS are not all equal. Like most enterprise software, they fall into three broad categories, with in-house developed systems at one end of the scale, customisable software from independent software vendors' (ISV) in the middle, and fully outsourced services at the other end. SMS can live within a pay-TV operators own IT infrastructure, hosted in a third party data centre, or as a delivered service from the cloud.

This diversity of offerings reflects the wider differences between the origins and motivation of pay-TV operators. Each combination may offer a different set of pros and cons but what is clear is that organisations are moving away from in-house designed, coded and maintained

SMS in a similar way that organisations have embraced standardised software from Oracle, Microsoft and SAP. The reason is simply that developing and maintaining software is a complex and time consuming business.

Irrespective of brand, most SMS have a number of common features that are considered a "must have" for a majority of pay-TV operators. These are nominally grouped around functional areas of the business.

| Developed in-house | Customisable software | Outsourced services |

In-house IT infrastructure

Third party data centre

Delivered from the cloud

Less complexity

Payment Processing

Signing up customers, confirming ability to pay, and taking payment are fundamental requirements of every successful pay-TV service. Payment services need to be flexible to cope with a variety of payment dynamics, such as immediate payment processing for pay-per-view sporting events through to a monthly recurring subscription model.

Payment processing capabilities need to be adaptable in terms of devices supported, from smartphone, through to tablets and PCs, and connected TV. Although credit cards are considered a defacto method, only 7% of the population in developing economies owns one and even ownership in more affluent European nations hovers around 50% according to the World Bank. Internationally, there are several hundreds of payment methods and an SMS, especially for pay-TV operators that wish to operate transnationally, need to support flexible payments that include micropayments, debit card payments, bank transfers, PayPal, mobile transfers, retail vouchers and a variety of other local options.

Technical Operations

SMS can have a direct impact on the ability of a pay-TV operator to automate or create self-service applications for subscriber activation, subscriptions alterations and authentication against conditional access (CA) systems or digital rights management systems (DRM). Operational considerations are further complicated when pay-TV services need to integrate with third party systems - for example, when an operator signs up customers through an agreement with a mobile telephone service provider. The integration between the pay-TV systems and the mobile provider's systems is potentially a major operational stumbling block.

The operational features of a SMS span far and wide. Whether it's enabling data flow between different delivery and authentication systems, to providing a method of assisting customer services teams; to streamlining or even creating self-service systems for password resets and parental controls; or funnelling technical support requests to the right destination.
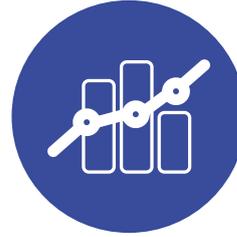
Reporting and analyses

With its position in supporting subscribers, payment and service delivery, SMS are a natural collection point of statistical data regarding a pay-TV operators business processes and subscriber community. This raw data, when given context and viewed against trends, allows marketers and senior business leaders to develop and track sales initiatives and go-to market strategies. Questions like: "Do our free month offers lead to full subscriptions?" or "Which device is the most popular for viewing as to impact our application development strategy?" can be answered by a whole host of valuable insights uncovered through reporting and analyses. These answers can help solve short term issues and improve the longer term profitably of a pay-TV business model. Alongside these core areas, many SMS also offer:

- The tracking of company KPIs

- Providing detailed breakdowns of sales targets by product and platform

- Marketing effectiveness of offers and discounting strategies

- A full and reconciled package of finance reports

Key selection criteria for a SMS

The selection process for a SMS solution is not an easy decision as there are many diverse considerations that should form part of the process. The physical deployment location and distribution models are varied with a range of pros and cons which have a varying importance depending on the pay-TV providers' strategy.

In broad terms, the selection criteria should meet the company goals and objectives. The SMS function is to support a pay-TV operator's goals and it is clear that every company has different objectives. Some examples of goals might be:

- Efficiency goals: Can I make it easier for subscribers to sign up for my service?

- Cost goals: Can I reduce the cost of processing payments?

- Customer service goal: Can I reduce wait times for telephone based customer services through online self-service automation?

- Speed to market goal: Can I reduce my time to launch so I can benefit from early entrant advantage?

The next area of consideration should include adherence to functional software requirements across the areas of the business based on the launch, growth and ongoing business activities. It is important to review all the areas on the list, even if your current processes are currently being done "outside of the system" on spreadsheets or whiteboards. The selection process is a good time to delve into the "small stuff"- which may be an annoyance with only a few users, but this might end up as a major flaw show-stopper when subscriber numbers hit the millions. This part of the process should also include the underlying technology and future scalability which is particularly important as pay-TV services are growing rapidly, and will need a system that will grow with you.

Budget and resources is a crucial element in any critical information and communication technology (ICT) selection process. During discovery and shortlisting, organisations may find the highest priced system to be several times the cost of the least expensive solution. But there is a reason for this. Some companies require advanced functionality built into a higher priced system, whilst others may have a less complex criteria to meet, and can choose a more moderately priced SMS solution to meet their needs. Don't necessarily think that the more expensive system is better- ensure that you consider cost structured to scale on a per subscriber basis which negates higher capital expenditure (CAPEX).

Finally, and possibly most importantly, find a team you trust. Who will implement this system? Who will manage this project? Who will support it when needs and/or processes change? The choice of people, both internal and external, is critical to the success of any SMS project and longer term evolution. In a study completed by Deloitte & Touche, businesses looking for new enterprise systems were asked to name the top ten criteria they used for their selection:

1. Price of software

2. Ease of Implementation

3. Ease of use

4. Ability to fit to business

5. Functionality

6. Ability to work with existing hardware

7. Growth potential

8. Level of support provided by reseller

9. Quality of documentation

10. Developer's track record of performance

Summary

The use of dedicated subscriber management systems in the pay-TV industry is a growing trend that mirrors in part the telecoms and utility sectors that have strived to reduce costs and improve service through the intelligent use of technology. When a SMS is deployed effectively, they can provide a basis for operators to build flexible and profitable business models that are able to adapt to the ever-changing TV market. But choosing the SMS that is right for you and your business is no simple task, and all of the above aspects need to be considered in order to have a system that efficiently and effectively meets your business goals.

In our next guide, we will examine how SMS integrate into a pay-TV process across areas such as operations, finance, customer services, and sales and marketing to increase profitability and growth. Our next guide will also look at how senior executives and business strategists are using SMS as part of the wider go-to market and business evolution.

For more information on subscriber management and related services, please visit www.paywizard.com

About PayWizard

We deliver next generation subscriber management and billing solutions for today's multiplatform world. Based on our cloud based enterprise class software, we provide multiscreen subscriber management, pay-TV platform interoperability and a unique array of best of breed payment services to enable pay-TV operators and other media companies to truly monetize the TV everywhere experience.

With 15 billion video-enabled devices set to be in the global marketplace by 2020, it is becoming a strategic imperative for pay-TV operators to make their content available across multiple devices. But many are facing the challenges of enhancing their TV Everywhere services whilst creating compelling experiences that embrace new routes to market.

Our comprehensive set of products and services address these commercial challenges and ensure pay-TV operators remain successful in today's highly competitive TV landscape. Each year we enable more than $400million in pay-TV revenues for our global client base which includes leading media companies BT TV, NBCUniversal, ITV and Virgin Media.