

Prospects for Premium OTT in Asia Pacific

A snapshot of industry perspectives on the
evolution of the market

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1 Executive Summary

What are the prospects for premium OTT – standalone subscription film and TV services – in the Asia Pacific region? Is the market poised for take-off or impeded by poor infrastructure and limited demand? How will the recent arrival of Netflix stimulate the market? How will local broadcasters, pay-TV providers and telcos respond?

In February 2016, Ooyala and Vindicia commissioned MTM to explore the development of premium OTT in Asia Pacific, focusing on three key territories: Australia, Indonesia and Thailand. The project team conducted research, in-depth interviews and executive seminars with a broad cross section of senior industry participants in each territory, to explore perspectives on current trends and future market developments. This paper portrays a snapshot of industry perspectives.

Key findings

At present, premium OTT in Asia Pacific is at an early stage in its development – impeded by relatively low levels of internet penetration in many key markets, poor broadband infrastructure, competition from fast-growing subscription and multiplatform television services, high levels of piracy and relatively low levels of consumer awareness. To date, many local services have gained only limited traction.

However, local executives see the next 12-24 months as a tipping point for premium OTT across the Asia Pacific region, with Netflix's launch helping to raise consumer awareness and stimulate increased investment by local telcos, pay-TV operators, broadcasters and OTT businesses. In addition, many industry participants believe that investment in infrastructure and connectivity will help support the development of the premium OTT market. Premium OTT services are ramping up activity across the region and investment is increasing, as major enterprises look to capture share in a fast-growing market. Industry participants are optimistic about the prospects for growth.

Nevertheless, there are important uncertainties about future market developments:

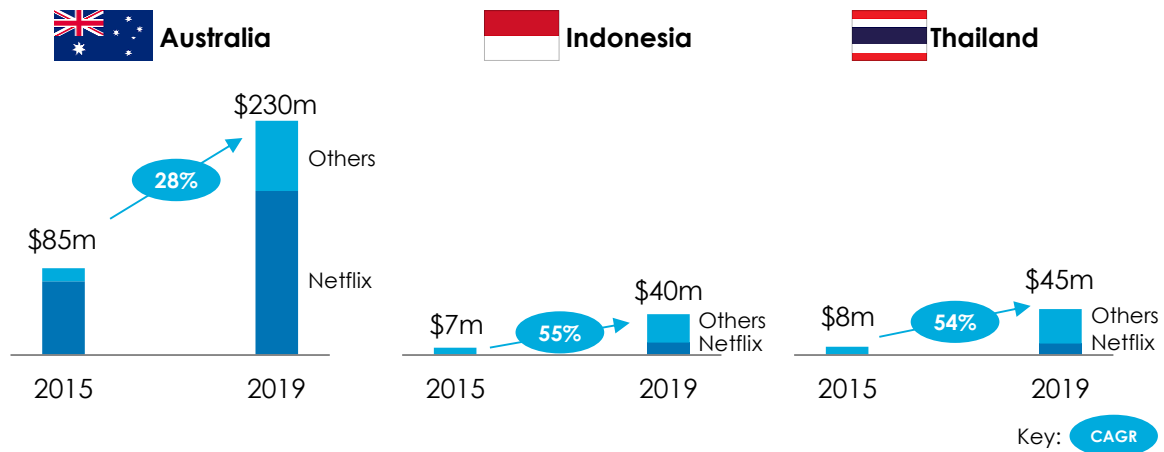
- **Will broadband infrastructure improve to support future growth in premium OTT services?** Executives in Australia, Thailand and Indonesia believe that poor quality broadband infrastructure and limited access to cheap fixed-line services have been a significant barrier to growth. Although fibre networks and 4G mobile services are being rolled out in many areas, coverage remains uneven and many industry participants are sceptical about the prospects of significant improvement during the next few years. Moreover, local industry participants stress that APAC is a mobile-first region and envisage mobile operators playing an important role in the development of the market going forwards.
- **Can OTT services address the local content challenge?** Although international content will appeal to many consumers across the region, industry participants believe that OTT service providers will need to offer local-language content to appeal to the mass market, especially in Indonesia and Thailand. Existing providers are ramping up their spending on local content and believe that there are content libraries available for licensing, but acknowledge that it will be challenging to acquire

a compelling catalogue of subscription-driving local content, given rights costs, competition from pay-TV providers and free-to-air broadcasters, and high levels of piracy.

- **Where, when and how will Netflix localise its APAC services?** Netflix's global launch announcement in February 2016 will undoubtedly help to grow the APAC premium OTT market, but many local executives believe the company will face important challenges as it looks to attract subscribers with a one-size-fits-all offering. Unlike in Australia, where Netflix launched in March 2015, many consumers in Thailand and Indonesia have strong preferences for local-language content – but addressing this demand across a large and diverse region will be difficult. Netflix will also face competition from strong local providers, many of whom have existing payment relationships adapted to local conditions and are able to bundle low-price OTT offerings with other services. The most attractive route to market for Netflix may be through-the-middle distribution deals with pay-TV platforms – a tried and tested route in other markets – but these deals will take time to close.
- **Can standalone OTT offerings compete with multi-platform pay-TV and bundled offerings?** Across the APAC region, major pay-TV providers and telcos are investing in multi-platform TV Everywhere offerings and OTT services, typically bundled with pay-TV and broadband packages. At the same time, some broadband providers across the region are restricting access to Netflix over their networks. As a result, some local industry participants are cautious about the prospects for standalone, unbundled OTT offerings, suggesting that OTT providers will need to find ways to work with local pay-TV platforms and network operators if they are to succeed.
- **How will local players develop their OTT strategies?** Although several local industry participants have already entered the premium OTT market, many of their services remain at an early stage in their development and their future strategies are uncertain. Many current services are undifferentiated, rely on licensed US content, and are offered only to existing subscribers. Local executives believe that some operators will step back from the market, as competition intensifies, or may look to combine forces with other providers. Equally, successful providers may look to expand more aggressively across the region.

Despite these uncertainties, industry participants believe that the market will grow strongly through to 2019, from around \$85m in 2015 to \$230m in Australia, from \$7m to \$40m in Indonesia, and from \$8m to \$45m in Thailand. Growth will be driven primarily by mass-market services, with local services capturing a significant share of the market. Although Netflix is widely expected to remain the dominant premium OTT provider in Australia, executives expect local players to dominate in Indonesia and Thailand.

Exhibit 1: Expected value of the premium OTT market in 2019



The research also found that:

- Local industry participants believe that the most important driver of growth during the next few years is likely to be competitive marketing by local telcos and pay-TV providers, promoting premium OTT offerings to their existing customer bases. The launch of Netflix across the region is undoubtedly helping to stimulate increased activity, as incumbents look to defend their businesses and to capitalise on growing awareness and consumer demand for low-priced OTT offerings.
- Although piracy is prevalent across the region, local executives believe that consumers are generally willing to pay for entertainment content, at the right price point. Pirated content is often obtained through low-cost DVDs rather than via digital downloads – and the cost of a pirated boxset can be broadly comparable to the monthly subscription fee for a local premium OTT services.
- Local industry participants believe that OTT providers will have to take specific steps to adapt to mobile-first consumer preferences across the APAC region. For example, some providers are investing in shorter-form premium content such as episodic 20-30 minute TV series, suitable for mobile consumption, and are enabling content downloading to support offline viewing on the go. Similarly, local executives believe OTT services will need to provide flexible pricing plans, including tiered SVOD packages and TVOD, rather than relying solely on a flat-rate monthly subscription package.
- Industry participants emphasise the importance of not relying solely on credit card payments, due to low levels of penetration in some countries and a widespread reluctance to pay online. Instead, alternative payment systems such as carrier billing and convenience store gift cards are believed to be well established and relatively uncomplicated to set up. However, providers will need to tailor their approaches to the demands of different markets.
- Although Netflix is expected to be one of the largest OTT providers across the region, local executives believe that its prospects vary significantly, market by market. In Australia, local executives believe that Netflix will be the dominant provider, but executives in Indonesia and

Thailand believe that local OTT providers such as iFlix, HOOQ and PrimeTime, alongside services from incumbent telcos and pay-TV providers, will capture the majority of the market.

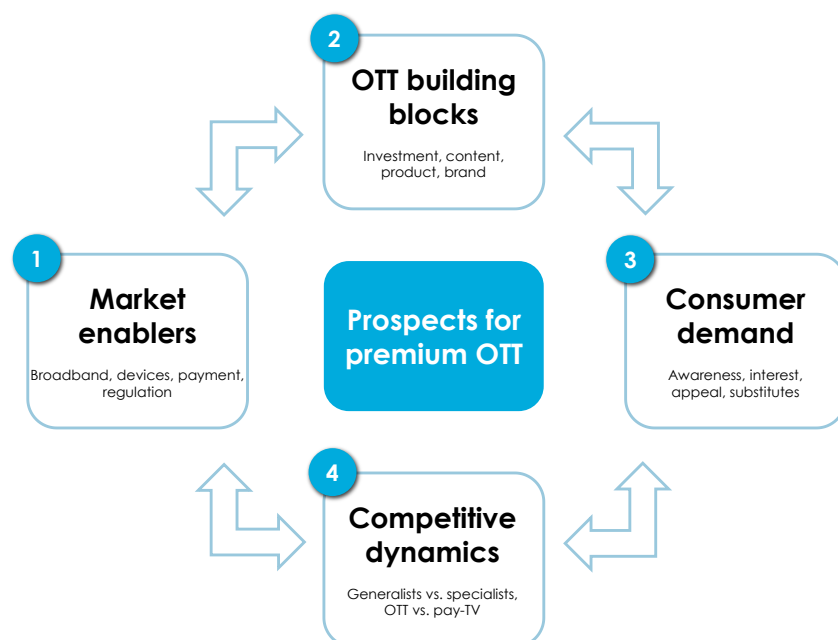
- Compared to other regions, there are very few niche or specialist OTT services active in the Asia Pacific market. Industry participants believe that this is largely because cultural and linguistic barriers make it hard to offer niche services across the region. Some local providers are planning to incorporate specialist content into their offerings, but most are currently focused on mass-market international content and, in some cases, local content commissioning. Over the next three years, industry participants do expect to see a small number of specialist services emerge, in areas such as sports, kids, expats and education.

2 Background to the study

In February 2016, Ooyala and Vindicia commissioned MTM to explore the prospects for premium OTT services in Asia Pacific, focusing on Australia, Indonesia and Thailand. The project is the fourth in a series of research programmes, with previous exercises exploring the prospects of premium OTT in Western Europe (the UK, Germany and the Netherlands) in November 2014, in the USA in June 2015 and in Latin America in November 2015.

MTM's research programme was structured around a simple framework, designed to support exploration of the various factors affecting the prospects for premium OTT in the region.

Exhibit 2: Research framework



We have provided additional information about the framework in Appendix A.

The research programme consisted of three main stages:

1. A review of market data and company information about industry participants in the region, to establish a baseline of industry data about OTT developments. All sources have been attributed.
2. In-depth interviews with senior industry participants, speaking both to local market experts and to executives with a pan-regional view, exploring their perspectives on market drivers and barriers, competitive dynamics and future developments.
3. A series of three seminars in February 2016, held in Bangkok, Jakarta and Sydney. Each seminar was structured using a modified form of the Delphi technique – a widely used approach for developing forecasts and predictions about the future, by stimulating a considered consensus across a group of experienced industry participants. The technique is intended to facilitate access to the positive attributes of interacting groups. The seminars involved a total of 70 experienced executives from companies across the technology, media and entertainment industries, including: studios and

broadcast networks; rights holders; leading multichannel video programming distributors (MVPDs); telecoms companies; OTT providers; and online video investors.

All values are expressed in US dollars, with the following exchange rates: 1 USD = 1.4 Australian Dollars, 35 Thai Baht, 14,000 Indonesian Rupiah. All data points in the document are for full calendar years, unless otherwise specified.

MTM, Ooyala and Vindicia would like to thank all those who contributed to the research for their input and insights.

Exhibit 3: Research participants



Unless otherwise attributed, all quotations used in the report come either from the programme of depth interviews or from the three Delphi seminars. All sessions were completed under the Chatham House Rule (no attribution without prior permission), with participants speaking as individuals and not as company representatives. Inevitably, this paper provides only a partial view of a highly complex industry. It represents a snapshot of industry perspectives at a particular moment in time.

Future research and workshops will be scheduled during the course of 2016/17 to explore changing industry perspectives, as premium OTT services continue to grow and develop internationally.

The opinions expressed within this paper are solely those of the authors and reflect MTM's judgement at the time, based upon the available information. These views do not necessarily represent the views of the interviewees and contributors. Any errors or mistakes are entirely the responsibility of the project team.

MTM's project team (Jon Watts and Karin Bergvall) has been supported throughout by key executives from Ooyala (Mongchee Chang) and Vindicia (Bryta Schulz).

3 Market context

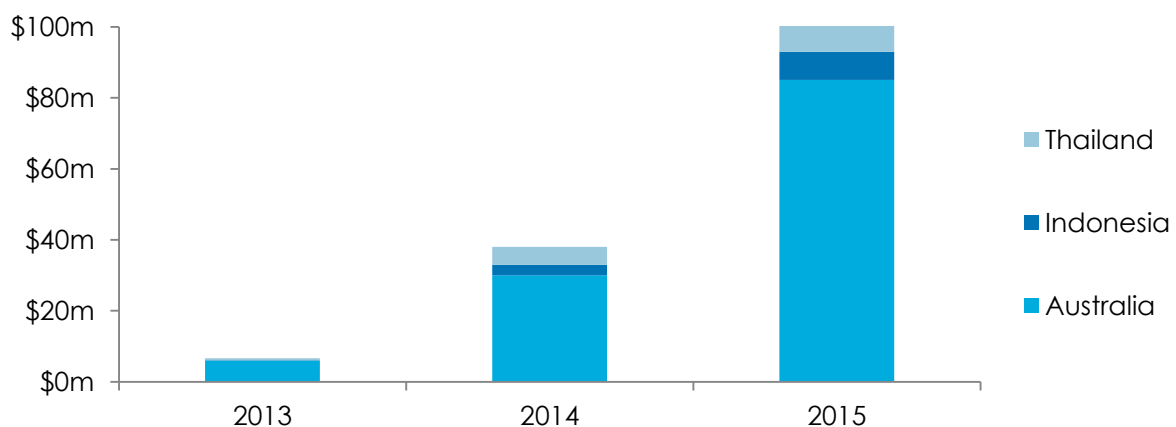
This report focuses on three very different countries in the Asia Pacific region – Australia, Indonesia and Thailand – with widely varying characteristics, in terms of wealth, demographics, geography, penetration of broadband and pay-TV, and content preferences. Although data about the current state of the market is often contradictory, there is a strong consensus that standalone premium offerings have gained only limited traction with consumers to date, in part because of challenging local conditions.

Overview

Compared to the US, Western Europe and Latin America, premium OTT has been relatively slow to take off in many countries in the Asia Pacific region. To date, the market in Asia Pacific has been dominated by Japan and South Korea¹, where services such as D-Video, Hulu and BTV have begun to experience considerable success. However, these services have been mainly focused on domestic rather than international growth and have not yet expanded into other countries in the region.

In Australia, Indonesia and Thailand, premium OTT services have begun to proliferate, with local OTT providers, telcos, broadcasters and pay-TV businesses launching services and ramping up investment. As most of the major services do not break out their revenues or subscriber numbers, there are considerable uncertainties about the take-up and performance of existing services. However, local industry participants estimate that the premium subscription OTT market in 2015 was worth around \$85m in Australia, \$7m in Indonesia, and \$8m in Thailand.

Exhibit 4: Estimated value of the SVOD market in Australia, Indonesia and Thailand (2013-2015, USD)²



¹ Digital TV Research, *Asia Pacific OTT TV and Video Forecasts (2015)*

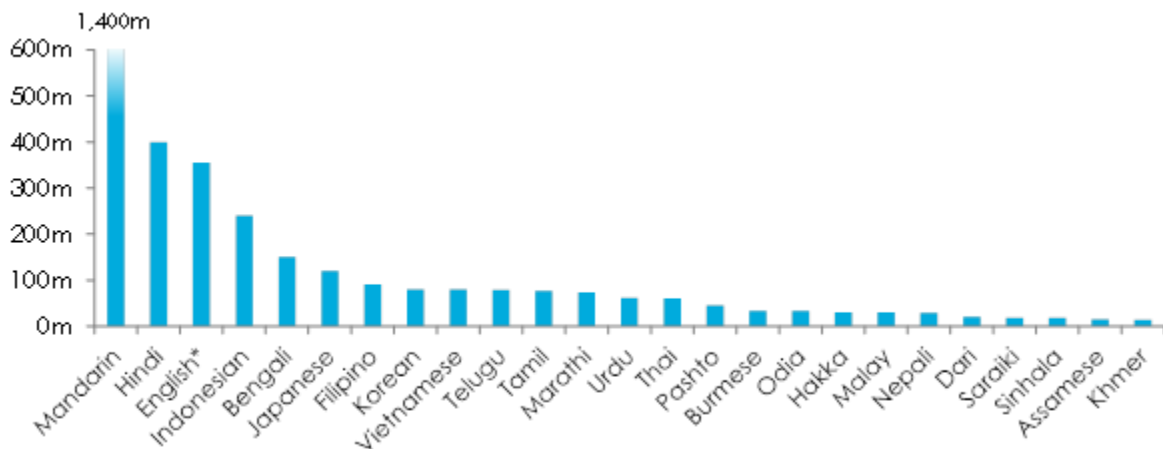
² MTM estimates, based on synthesis of industry data and interviews

Market characteristics

Local executives believe that the diverse characteristics of territories across the region will pose important challenges for premium OTT providers. In particular, industry participants emphasized:

1. **High levels of cultural and linguistic diversity.** As a region, Asia Pacific is characterised by very high levels of linguistic diversity³ – making it harder for local OTT services to expand from their home market across the region, unless they focus solely on international audiences. Countries across the region have widely varying and distinctive national cultures, with many consumers exhibiting strong preference for local content. Local TV and film content typically travels poorly across the region: *“We’re culturally isolated in this region – our language and history are largely separate from our neighbours. In Latin America, you could launch a pan-regional service in Spanish and Portuguese – in Asia Pacific, you’d need at least ten languages, and even then lots of consumers would be left out.”*

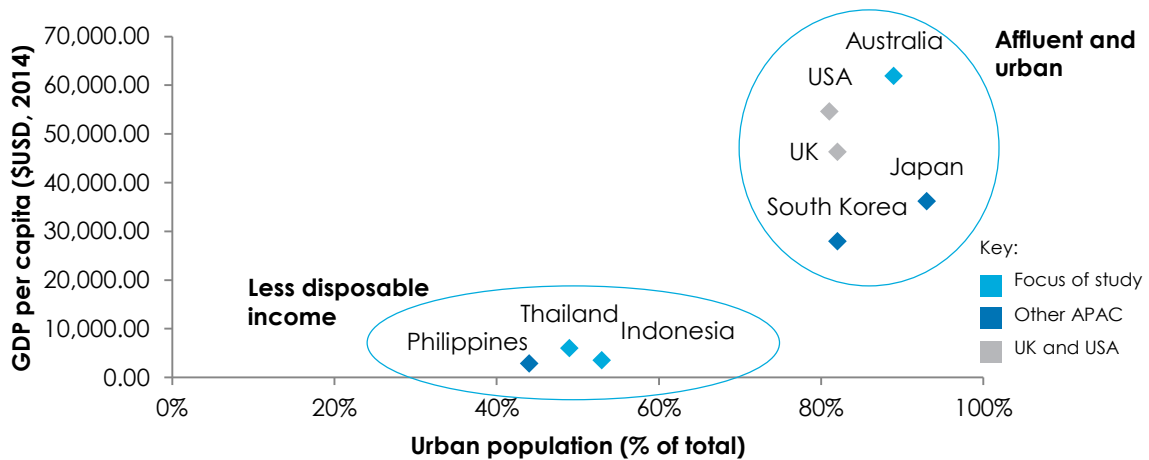
Exhibit 5: Languages with more than 10m speakers in Asia Pacific⁴



2. **Uneven levels of economic development.** Across the region, levels of economic development vary significantly. Whereas Australia is similar to the UK and USA in terms of GDP per capita (\$61,925 in 2014) and urbanisation, Indonesia and Thailand are very different, with GDP per capita of \$3,491 and \$5,977 respectively, and with lower urban density. As a result, demand for premium OTT offerings, even at relatively low price points, may be restricted to more affluent consumers, especially if services are primarily offering international content: *“Netflix is very expensive in this region, 8 dollars a month is a lot of money for most people. If you are priced around 2-3 dollars per month it becomes a very different proposition – it’s reasonable for a consumer to pay that for entertainment.”*

³ Ethnologue, Languages of the world (2015)

⁴ Nationalencyklopedin (2007). Please note that English includes English as a second language

Exhibit 6: GDP per capita and % urban population (2014)⁵

3. Poor quality fixed broadband. Local executives believe that low levels of fixed-line broadband penetration and poor quality services are important barriers to OTT take-up across the region. Fixed-line broadband networks have been slow to roll out due to economic and geographical constraints. Mobile broadband typically has better coverage, but tends to be slower and often comes with restrictive data caps, which can limit consumer access to streaming high-definition video. Moreover, broadband infrastructure varies across the three territories and across the wider region:

- In **Australia**, penetration of fixed and mobile broadband is broadly comparable to other developed economies, but connection speeds are relatively slow at 8.2 MBps, around half the average speed of the UK and USA⁶, and are widely believed to be inconsistent and patchy. Many ISPs also enforce strict data caps, limiting consumer usage: *“The ISPs are not interested in changing their system. Fast broadband is very expensive and not always available – and even if you can get it you’re typically limited to 100-200GB per month through your fixed connection. It’s not at all conducive to streaming media, and a big barrier.”*
- Fixed broadband services in **Thailand** have similar average connection speeds to Australia at 9.2 MBps, but penetration is low with only around 9% of consumers taking a fixed broadband subscription⁷: *“Lots of Thai consumers have great broadband internet – it’s fast, relatively inexpensive, and the ISPs compete with good deals, but it’s really only available in the cities.”*
- **Indonesia** has the least developed fixed-line broadband infrastructure, largely due to its archipelagic geography. To date, only around 1% of the population have a fixed broadband subscription⁸, with an average connection speed of just 3.9 MBps⁹. The government has ambitious plans to bring internet to 75% of the population by 2020¹⁰, but much of this will be mobile internet, and target connection speeds are relatively low: *“Broadband is really only*

⁵ World Bank Data Set (2015)

⁶ Akamai, *State of the Internet*, (Q4 2015)

⁷ ITU, *Measuring the Information Society*, (2016)

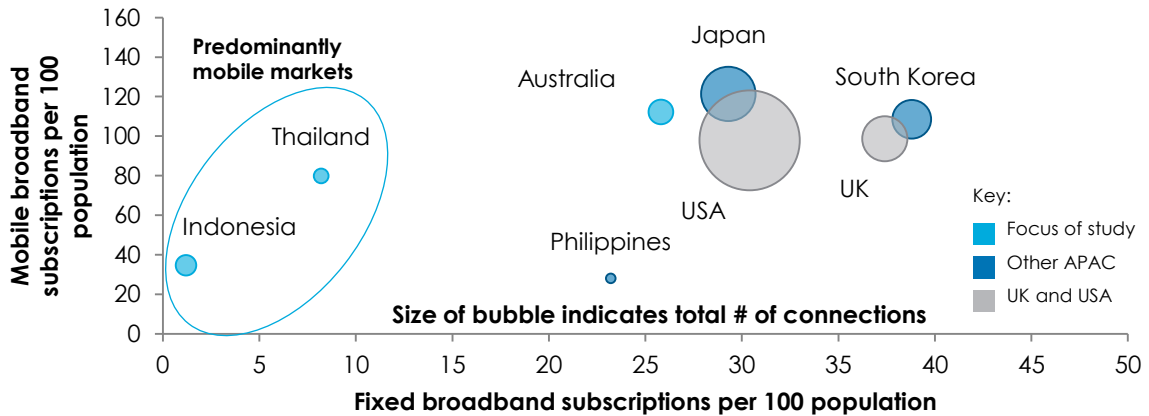
⁸ Ibid.

⁹ Akamai, *State of the Internet* (Q4 2015)

¹⁰ Tech in Asia, *Indonesian government launches high-speed internet initiative* (2014)

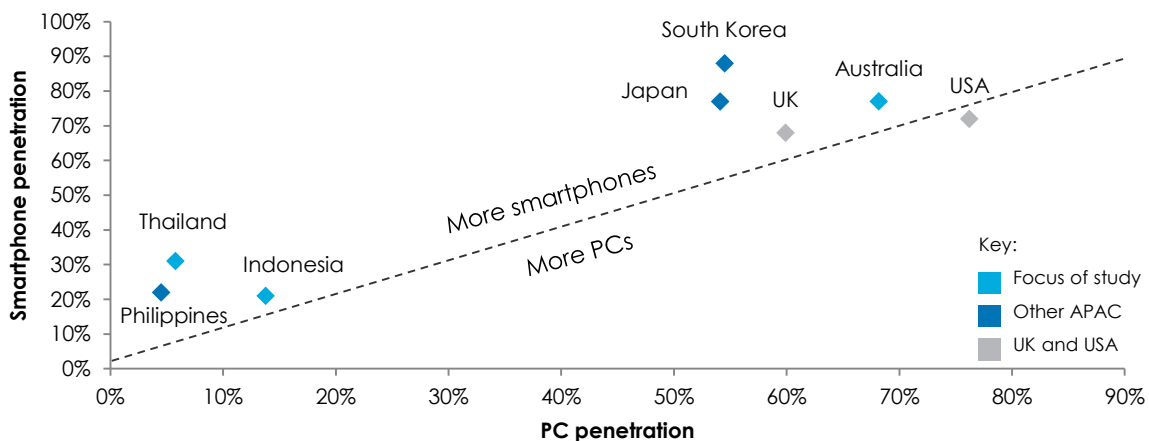
available in the cities, and not in all cities. Indonesia is a very difficult country to connect, because of all of the islands, and broadband access has been slow to develop.”

Exhibit 7: Fixed vs mobile subscriptions per 100 inhabitants and # of connections (2014)¹¹



4. Mobile-first markets. While most wealthy countries have a high smartphone penetration, the poorer countries of Asia Pacific tend to be mobile-first markets, with consumers using smartphones as their main internet-connected device. Only 5% of Thai consumers own a personal computer¹², whereas 31% own a smartphone¹³, with local industry participants suggesting that this will affect demand for subscription OTT services: “This is a strongly mobile-first market. Consumers do the majority of their browsing on their device, and this influences their content consumption behaviours. Short-form video and free-to-view content perform well, but it’s more of a challenge for long-form content like film and TV series.”

Exhibit 8: Smartphone penetration (2015) and computer penetration (2013)¹⁴

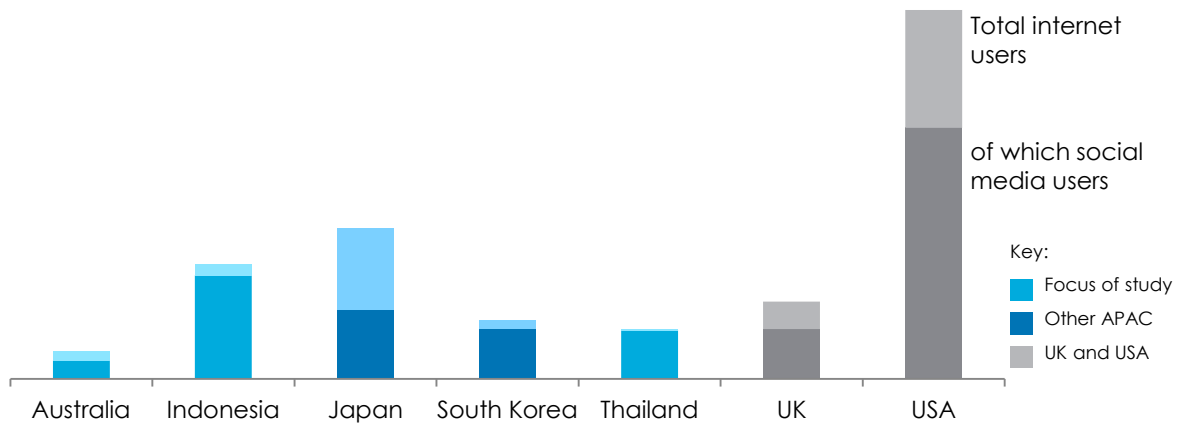


5. Social media dominates internet usage. Internet usage in Indonesia and Thailand is heavily driven by communications and social media applications, most commonly accessed via mobiles. While

¹¹ ITU, *Measuring the connected society* (2015)
¹² UN, *World Development Indicators*, 2010
¹³ Pew Research, 2015
¹⁴ Nation World (2013); Pew Research (2015)

65% of all Australian internet users are active on social media networks, 90% of Indonesian and 95% of Thai internet users regularly use social media – spending on average 2.5 hours per day on social media sites, compared to 1.2 hours per day for Australian social media users¹⁵. Although online video consumption is popular, much of this consumption is short-form content and takes place on social networks.

Exhibit 9: Total internet users and social media users by country (Q1 2016)¹⁶

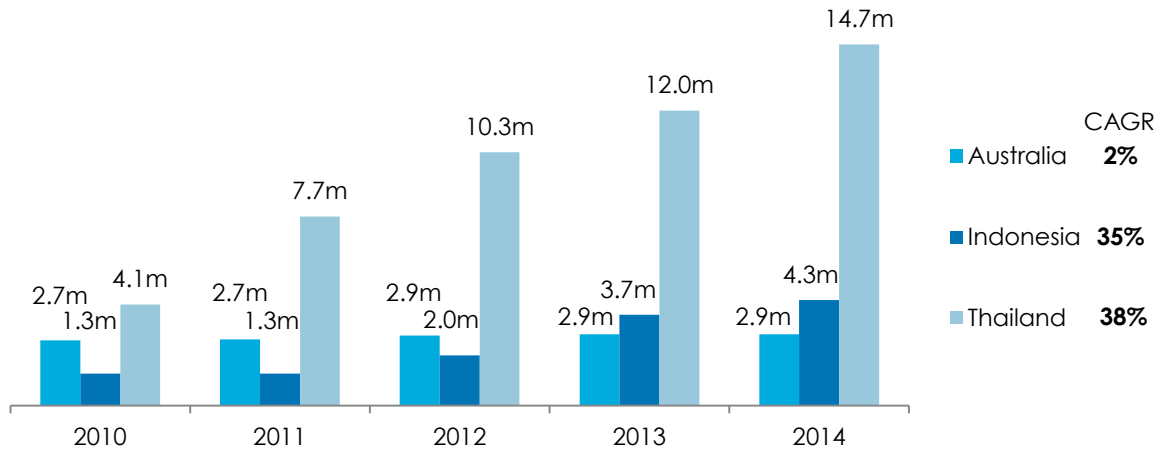


6. TV is popular and multichannel services are growing fast. Across the region, TV viewing remains relatively robust – and is growing fast in some developing markets. However, there are wide variations:

- In **Australia**, consumption is widely believed to be shifting to digital platforms. Although TV is still highly viewed, consumption on digital platforms has grown rapidly, especially for younger demographics, and online advertising has grown strongly. Growth in pay-TV penetration has stalled, at around 30%. Local industry participants believe that OTT video will grow strongly.
- In other markets, TV is more robust. In **Thailand**, TV remains the most viewed medium, capturing around 60% of total ad spending, and pay-TV penetration has grown strongly, from around 20% in 2010 to over 70% in 2014. Similarly, TV viewing in **Indonesia** has remained robust and pay-TV is beginning to take offer, growing from around 2% in 2010 to 7% in 2014.

¹⁵ We are social, 2016 Digital Yearbook (2016)

¹⁶ We are social, 2016 Digital Yearbook (2016)

Exhibit 10: Number of multichannel homes by country (authorised and unauthorised)¹⁷

Although executives believe that consumers in Australia are hungry for the additional choice provided by OTT services, local industry participants in Thailand and Indonesia believe that the growth of multi-platform pay-TV and aggressively-marketed triple-play offerings will create important challenges for standalone premium OTT offerings: “There’s going to be more competition for premium content rights and lots of consumer will choose pay-TV over OTT – especially when broadband quality is low.”

7. High levels of piracy. Industry participants in Australia, Indonesia and Thailand acknowledge that piracy is an important problem across the region. Although data about the extent of piracy is hard to come by, research from national trade bodies indicate the scale of the problem:

- Piracy in **Indonesia** is still primarily physical rather than digital – the International Intellectual Property Alliance (IIPA) estimates that 90% of DVDs sold in Indonesia are counterfeit¹⁸. In addition, as connectivity is increasing, consumers are turning to digital piracy, with social media acting as an enabler for illegal content.
- **Thailand** has significant online piracy problems, with illegal download sites among the most visited sites in the country, according to the IIPA¹⁹. Access to illegal online content is widely believed to have significantly affected the entertainment market.
- While **Australia** has long been one of the countries with the highest illegal downloading rates in the world²⁰, the number of people downloading illegal content fell by 25% between 2014 and 2015²¹. Industry participants believe that the launch of Netflix and other SVOD services may have contributed to the reduction in piracy, as consumers now have improved access to international content.

8. Limited penetration of credit cards in some markets. In general, credit card penetration tends to be strongly correlated with the growth and development of e-commerce and with levels of spending

¹⁷ CASBAA, *Asia Pacific Multichannel TV* (2014)

¹⁸ IIPA, *Special Country Report Indonesia* (2015)

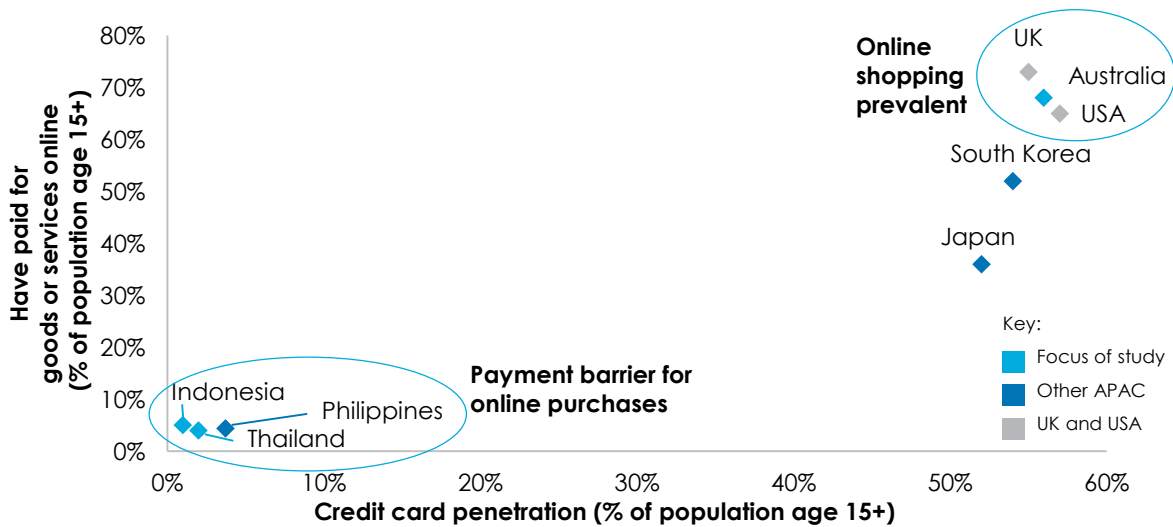
¹⁹ IIPA, *Special Country Report Thailand* (2016)

²⁰ MUSO, *Executive Insight: The Australian Piracy Problem* (2015)

²¹ IP Awareness Foundation (2016)

on digital content. Across the Asia Pacific region, credit card penetration varies widely. In countries such as Australia and South Korea, credit card penetration is high – more than a card per capita – and the majority of the population has purchased goods and services online. However, credit card penetration is less than 5% in Thailand and Indonesia – and only a similar proportion of the population in each country has spent money online. For international OTT providers, this can create important challenges – to address the mass market, companies will need to develop localised payment solutions: “The lack of credit cards is not a new phenomenon, and many companies are working on developing new solutions to online shopping. There are solutions in place such as carrier billing and gift cards – and we’ll see more payment solutions being launched over the next three years. It puts telcos and local pay-TV providers in a strong position – they’ve got payment solutions and billing relationships already in place and lots of them have retail footprints.”

Exhibit 11: Credit card penetration and E-commerce usage (2015)²²



²² World Bank Findex (2015)

4 Market enablers

How will the underlying market enablers change by 2019?

- Broadband penetration and quality is a large problem across the three markets – industry participants expect to see some improvements, but are uncertain about the pace of change.
- As a result, local executives believe that poor connectivity will impede the growth of premium OTT during the next few years, even as the penetration of connected devices increases.
- While credit card penetration is likely to remain relatively low in Indonesia and Thailand, executives are positive about the prospects for alternative payment solutions..

Underlying market conditions for premium OTT in Australia are very different to Indonesia and Thailand – the penetration of credit cards, smart TVs and tablets is significantly higher, and a larger share of the population are able to pay for fast broadband. However, industry participants across the three markets agree on the two primary drivers underpinning growth of premium OTT: better access to fast, unlimited broadband, and increased affordability and quality of connected devices.

The current state of broadband varies between countries: Australia has relatively high penetration of fast broadband, but also high prices and data caps; Thailand has fast networks, but penetration is low, at only around 26% household broadband penetration; and Indonesia has struggled with rollout due to its island geography, resulting in low speeds and limited penetration of broadband to date.

- Broadband infrastructure is perceived to be the most important driver of OTT take-up: *“The internet connection underpins all premium OTT services. If streaming videos are constantly buffering, or you can't watch it in a good quality, it's not premium – regardless of the rest of the experience.”*
- Indonesia, Thailand and Australia all have government strategies in place for rolling out next-generation internet – 4G and fibre – but industry participants expect the pace of change to be slow: *“The government has big plans for rolling out fibre across the country, but we're not very hopeful that it will actually happen. There has been demand for faster internet for years, but neither the government nor telcos have felt incentivised to improve their services.”*
- In particular, connectivity is expected to improve in urban areas first – excluding a large share of the potential addressable market for OTT services: *“There is a big difference between the big cities and the surrounding areas – getting internet can be a real challenge outside of the metropolitan areas. It's an industry challenge – the urban people have so much entertainment available, so rural consumers might be more likely to have free time and interest in subscription film and TV services.”*

Connected devices are constantly getting cheaper and better at showing video content, enabling more and more consumers to access online entertainment through smartphones, tablets, laptops and smart TVs. However, the lack of good quality broadband is expected to slow the growth of connected devices – and may limit usage of OTT content on smart TVs.

- Smartphones are already well established in all three markets – there are around 15m smartphones in Australia, 35m in Indonesia and 20m in Thailand – and the numbers are expected to grow:

“Southeast Asia is a massive smartphone market – you can’t really buy a feature phone in the stores anymore. The biggest driver of growth will be price, but also usability as consumer offerings become even more tailored to a mobile market.”

- Connected TVs are perceived to be a strong driver of premium OTT take-up – and consumers with connected TVs are understood to engage with premium content more often and for longer: *“From our data we can see distinct usage patterns across the various devices – and the smart TVs have the highest engagement both in terms of frequency and time spent.”*
- However, access to high-speed unlimited broadband is a requirement for a good connected TV experience – executives expect that take-up of connected TVs, boxes and devices will be slow as a result of poor broadband infrastructure: *“If you don’t have fast enough internet or have to pay for every GB of data the connected TV quickly becomes quite unappealing. Until the underlying infrastructure is significantly better, no device can fix the market.”*

To date, policymakers and regulators have been relatively slow to regulate OTT services – telecoms regulators are perceived to be resistant to include internet-based services as part of their regulatory scope. Industry participants are mainly pleased to be allowed to run their businesses without significant regulatory obstacles – but also concerned about the future impact of legislation, if and when it does arrive.

- In general, industry participants in Australia, Indonesia and Thailand do not expect regulation to be a major barrier to premium OTT services over the next three years, citing lack of education, urgency and resources: *“The regulators know nothing about the SVOD market. We talked to them about the types and scales of business they would have to regulate, and they decided that it probably wasn’t feasible to do. They barely have the resources to cope with the telcos and pay-TV providers at the moment.”*
- However, it is possible that the government will move more quickly, potentially in response to an externally triggered event: *“You could imagine a scenario in which there is public outrage about OTT content, perhaps from parents, where the government feels compelled to take significant action, regulate and censor. There is hardly any chance that regulation will be beneficial for premium OTT services, but a small risk of major negative regulatory impact.”*

Australia

The underlying enablers in the Australian market are fairly well developed, with good penetration of connected devices and payment infrastructure. However, the quality and cost of broadband is perceived to be a large barrier to growth, especially as the majority of ISPs impose strict data caps.

- The most pressing concern for industry participants in Australia is the low quality of broadband. Consumers suffer from limited speeds, high prices and data caps: *“There is not enough competition between the ISPs – demand for better broadband has been high for years, but the prices are great for the providers, and they’re not pressured to change.”*

- The government and telecoms companies are rolling out fibre and 4G, but executives are not convinced by the pace of change: *"There is a government initiative – NBN – to upgrade the broadband network, but so far it seems to cost lots of money and deliver limited real impact."*
- Compared to Indonesia and Thailand, Australian consumers are perceived to be more likely to engage with premium OTT services through tablets or smart TVs instead of smartphones: *"For premium content, you want to watch it on the best screen available – either on your tablet for personal viewing, or on the screen in the living room. It's not really snackable content to be consumed on-the-go."*
- Online payment is not a major issue for Australian premium OTT services – industry participants feel that consumers are generally happy to pay online, and credit or debit cards are widely available: *"Payments are not an issue – people are used to paying for things and content online. We might see some incremental improvement through things like device payment and platform ecosystems."*

Thailand and Indonesia

The market enablers in the Thai and Indonesian premium OTT market are typically less developed than in Australia – penetration of broadband and connected devices is lower, and many consumers are unable and/or unwilling to pay for content online. However, industry participants expect to see significant positive change over the next few years due to a combination of investment and innovation.

- Industry participants in both Thailand and Indonesia are positive about infrastructure improvements – in terms of reach, speed and quality of both fixed and wireless broadband: *"There is momentum in the market to improve connectivity – both from the government and from telcos. Fibre and 4G will leapfrog existing infrastructure, and really make a difference to consumers."*
- However, other executives are cautious about the rate of change, expecting that improvements will happen relatively slowly: *"The pace of new technology and infrastructure is rarely very fast in this country – we will see some improvement, but I don't know that it will make a real difference between now and 2019."*
- Seminar participants in Thailand have the most optimistic view on the broadband market going forward – the three major ISPs are competing for market share, investing in reach and providing consumers with good deals: *"The biggest internet providers have about 30% share each, and consumers are very tuned into price and promotions – the companies have to really work to maintain their market share, with high speeds and low prices."*
- In Indonesia, executives are concerned about the impact of geography on the rollout of fixed-line broadband – but 4G is expected to deliver benefits to consumers: *"We have 17,000 islands, and getting fixed-line broadband to a majority of the population will be a huge challenge. Delivering good 3G and 4G connectivity will be a big improvement – but might not drive a huge change in the take-up of premium OTT content."*

- Wifi hotspots for mobile contracts holders is expected to be a significant driver of premium OTT services – primarily through users downloading content for later offline viewing: *“Many consumers will want to go to an access point to download content for a week of viewing – local providers need to respond by making content available to download and watch offline.”*
- Both the Thai and Indonesian markets are perceived to be mobile-first, with the majority of online content consumption happening on smartphones: *“The market is all about the mobile – it’s the only device most consumers have. For a mass-market service, significant quantities of content will be consumed on a mobile device.”*
- Local providers are adapting their service offerings to be appealing to mobile consumers, for example by focusing on 20-30 minute TV series rather than movies: *“While some consumers will watch movies on their mobile, in general we see a preference for the slightly shorter-form content such as episodes of TV series. Our initial focus is to appeal to the mobile market – as we move to smart TVs and other devices we will adapt our content strategy toward more long-form content.”*

Compared to other regions with low credit card penetration, such as Latin America, Thailand and Indonesia have come further in developing alternative payment solutions for online content.

- While the payment infrastructure is challenging for major international providers due to a low penetration of credit cards, local providers have access to a range of alternative billing methods, and more are being developed: *“Alternative payment solutions are growing strongly – you can pay through apps, convenience stores, ATM bank transfers. It’s a logistical challenge for service providers, but it’s not a major hurdle to enable people to pay.”*
- In particular, carrier (telco) billing is perceived to be relatively straightforward to set up, and easy for consumers to use: *“Most telcos offer a range of add-ons that you can pay for with your pre-paid mobile contract, and users understand how it works. It’s pretty straightforward, but you need to go and talk to the telco, it’s not an automated process.”*
- Similarly, several SVOD services have collaborated with convenience stores to sell codes and top-up cards: *“We offer payment through the post office and through convenience stores – you buy a voucher and can top up your wallet in the service. Offering a range of payment methods is really important to enable consumers to pay for your content.”*
- However, both carrier billing and vouchers require a certain scale of operations, and will not be as easy to implement by a niche service: *“You need to be able to show the telcos and the convenience stores that your product is attractive and will sell. If you only target a tiny share of the population, you will struggle to convince people to stock and market your product.”*

5 Consumer demand

Will consumers be more or less interested in premium OTT services by 2019?

- Awareness of premium OTT services varies across Asia Pacific – in Australia, the launch of three new services in 2015 has encouraged consumer awareness, whereas it is still believed to be very low in Indonesia and Thailand.
- While piracy is a large problem across the region, much illegal film and TV content is still distributed as counterfeit DVDs, suggesting a willingness to pay for content at the right price point.
- However, industry participants are not certain that the existing premium OTT services will be appealing to consumers – citing small catalogues and lack of local premium content.

Local executives across the region believe that Netflix's high profile launch will help to grow consumer awareness of premium OTT services and will prompt local providers to ramp up their spending and activities to compete in the SVOD OTT space.

- In Australia, the introduction of Netflix in 2015 encouraged local providers to invest more in content and marketing to protect and grow market share – increasing awareness of premium OTT services in general: *“As Netflix was gearing up to launch in Australia, local providers felt the need to play in this market too. The two major local offerings – Stan and Presto – launched in January, and Netflix launched in March 2015, so the entire year had all three spending huge amounts of subscriber acquisition and marketing.”*
- In Indonesia, executives note that blocking Netflix increased awareness of SVOD services as national and international news outlets cover the story: *“The fact that Netflix was blocked by Telkom [the largest telecoms company in Indonesia] probably helped them gain traction and free PR beyond what they would otherwise have had. Other ISPs are using it as a marketing tool – ‘Switch to us and you can get Netflix’.”*
- In Thailand, Netflix's launch has stimulated less attention to date, with local industry participants suggesting that OTT offerings have generally attracted only limited interest – however, this is expected to change: *“OTT is going to start taking off – it's been slow, but will really take off in 2016, as providers grow marketing.”*

However, despite increasing awareness, willingness to pay is still perceived to be relatively low and piracy is seen as culturally acceptable across the region.

- In all three countries, industry participants discussed the challenge of providing premium content to consumers who are used to accessing it for free: *“Piracy is a big problem – most premium content is available online, especially US blockbusters. It's difficult to convince consumers that your service is worth paying for.”*
- Executives believe that the biggest challenge in encouraging consumers to pay for online services is acquiring the right content – which has to be both appealing to customers and difficult to pirate:

"The willingness to pay is highly dependent on the content available – it has to be differentiated, high quality, and difficult to get through other channels. Acquiring this type of content is one of our biggest challenges – if something is popular enough, it's likely to be online, and if it's not popular, people don't want to pay for it."

- However, Australian piracy has seen a 25% reduction since the launch of Netflix and its local competitors²³. Executives suggest that consumers were previously unable to access the content legally at an attractive time, place or price point: *"Piracy is not just a question of cost in Australia – it has been the only way to access certain TV shows. Popular US TV shows like House of Cards, Game of Thrones have only been available at a much later date, and often on pay-TV channels. Now that the content is available to us, at the same time and at a lower price point, people seem to be happy to pay for it."*

Australia

Australian consumers are perceived to be well aware of premium OTT services, given the press and marketing surrounding the launches of Netflix and competing services. However, industry participants are not convinced that the service offerings to date are sufficiently appealing in terms of price and content to really drive mass-market uptake.

- Awareness of premium OTT services is believed to be high, and consumers are largely familiar with the offerings available in the market: *"Awareness is pretty high – most of the target audience is likely to have a pretty good understanding of what a premium OTT service is and what you can expect. Netflix especially has had great free advertising through news stories – people are talking about it."*
- Compared to other English-speaking markets, especially the UK and the US, the catalogues available through premium OTT services are smaller – industry participants are concerned that consumers will not be convinced by the offerings to date: *"A lot of the rights are tied up by pay-TV providers and content owners – the catalogues are quite small at the moment. It's not completely clear that Australian consumers will feel that there's enough content worth paying for."*
- At the same time, executives believe that there is scope for a mid-priced entertainment offer: *"Pay-TV is fairly expensive, and many consumers only have free-to-air TV. There's room in the market for a reasonably cheap service that provides some extra entertainment content – either as an add-on to a pay-TV service for the real entertainment lovers, or for free-to-air users wanting to access some top shows."*
- Consumers are perceived to be interested in premium US and UK content, alongside some high-quality local offerings: *"We're an English language market, so a lot of our top content will be imported from the large English-speaking regions – we can't compete on budgets with Hollywood."*

²³ CHOICE, *Piracy drops with "Netflix effect"* (September 2015)

At the same time, many of our home-grown shows are very popular, as they resonate with our culture and experiences."

- To date, many hit international TV shows have not been easily available to Australian consumers within a reasonable timeframe. Proponents of premium OTT hope that the launch of Netflix and competing services can help bring appealing content to Australian consumers: *"There's strong demand for the big US shows – and at the moment a lot of the rights are tied up and not accessible to consumers. Hopefully, Netflix can help bring more day-and-date rights into the market – and the local players will want to follow suit."*

Indonesia and Thailand

The consumer demand for premium OTT services in Indonesia and Thailand is uncertain to date. Although awareness is growing from a low base, it is not clear whether consumers will be interested in paying for the premium OTT offerings, or if they will prefer to consume ad-funded content from free-to-air television and AVOD services.

- Awareness of premium OTT services is overall perceived to be low – especially in Indonesia, but also in Thailand outside of metropolitan areas: *"Awareness is very low, especially outside of the big cities. Education takes a long time, and none of the current premium OTT services have the ability to create that type of buzz."*
- However, awareness is expected to grow, primarily because of bundles and deals with telcos: *"The marketing budgets will primarily come from telcos offering SVOD services as part of a bundle with a mobile or internet contract – the people with an existing customer relationship."*
- Local content is believed to be very important to Indonesian and Thai consumers – more so than US or other international content: *"The content needs to be local movies and local drama – Indonesian people are very proud of their content. Services focusing on international content only are unlikely to gain much traction with the mass-market."*
- Executives perceive US blockbuster content to lack cultural context – and language and localisation is a challenge: *"A lot of US content is not relevant to our culture and values – some shows work globally, but many do not. For mass-market shows you also need to dub the language, which is costly and time-consuming."*
- Consumers are not perceived to be completely unwilling to pay, as they are used to paying for pirate DVDs rather than torrenting. However, executives feel that the price point needs to be very compelling to entice consumers to pay: *"We're used to paying for pirate DVDs – you pay around \$1 for a movie. But if the SVOD service can be at a similar price point it becomes a very compelling offer – if it's \$2-3 it is about the same price as a pirated box set."*
- However, ad-funded content is also becoming more prevalent, through services such as YouTube as well as broadcaster catch-up services: *"We've had catch-up TV for most broadcasters for*

around 1-2 years, and people are starting to learn about it. YouTube has been popular for longer, but it's a different proposition to TV."

- Many consumers, especially in Thailand, are perceived to be happy to watch advertising: *"Many consumers like their advertising. Thai advertising wins many awards and people like to engage with the ads. We particularly love sadvertising – stories that make you cry and shop."*

6 OTT building blocks

Will it become easier or harder to build a successful premium OTT service by 2019?

- Across Asia Pacific, industry participants perceive that the cost of acquiring differentiated, marketable content is steadily rising.
- Premium OTT services in Australia focus primarily on top-quality US and UK content, expecting this to be the major driver of subscription in the country.
- By contrast, in Indonesia and Thailand local content is believed to be key to building a mass-market service – but executives are concerned that relatively little premium local content is available.
- Executives agree that future content and marketing strategies will be driven by Netflix's appetite for investing in local content, and the responses from key industry participants.

Across all three markets, local executives believe that the content strategies of premium OTT providers are still being worked through and emphasise three areas of uncertainty:

1. Will Netflix commission or acquire significant quantities of local content to attract subscribers, despite limited international appeal?
2. Will domestic and regional telcos and pay-TV operators see SVOD services as appealing add-ons to reduce churn, or will they fear cannibalisation of full-price pay-TV packages?
3. Will content owners and broadcasters be happy to sell key shows to SVOD services, or will they want to retain the rights?

However, there is a strong consensus that content prices will increase significantly across the region, as competition intensifies and providers look to differentiate their services.

- As competition increases between premium OTT services, the cost of subscription-driving content is expected to go up in all three markets: *"The cost of content is a big challenge for everyone in the market – the truly premium content is becoming incredibly expensive. We've seen the cost of content increase over the last few years, and I don't think that the rate of change will slow down any time soon."*
- On the other hand, executives believe that local content providers, studios and rights holders are becoming more familiar with premium OTT services, increasing the content available for premium OTT services to buy: *"Until now, many studios have been sceptical of premium OTT services – we don't have the same business models as pay-TV providers, and it's difficult for us to pay the same prices. But awareness is growing, and people are seeing the benefits of selling content to us – either exclusively or in a secondary window."*
- In order to obtain the right content, some OTT providers are likely to begin commissioning original content – as prices for premium acquisitions rise, this is perceived to be increasingly attractive: *"We*

are starting to think about commissioning original content, to set ourselves apart and ensure exclusivity. Creating content is expensive, but acquiring exclusive content is also expensive."

- Local executives perceive that creating a strong brand will become increasingly difficult and expensive over the next three years. Brand and marketing challenges relate closely to the challenges of acquiring content, as a key differentiator for premium OTT services are their headline shows: *"It's becoming progressively more difficult to stand out from the crowd in terms of content and marketing. The cost of exclusive, subscription-driving content is very high, and you need to convince consumers that your specific catalogue and service is superior to all of the other offers in the market."*
- Most mainstream services focus their messaging primarily on their content catalogues – industry participants expect few services to differentiate on product or experience: *"Most consumers won't really care about killer features or really slick UI, as long as you have brilliant content. The main reason for losing a consumer is not being able to show them the content that they want – and this is much more likely to happen due to a lack of rights rather than a poor product."*
- However, specific features are perceived to be more important in certain regions: *"In Thailand and Indonesia, being able to download content and watch it offline is a key feature – many consumers want to be able to watch content on the go, but mobile internet isn't good enough, or they don't have good wifi in the home. They want to download a few episodes to their device, perhaps at a wifi hotspot, and watch it over the following week."*

Product and technology are not perceived to be major issues for most premium OTT services, with multiple vendors available to build white-label solutions. However, industry participants argue that while creating a me-too service is easy, developing a stand-out service is more challenging.

- Executives expect product and technology development to become easier across the board. More and more technology components are becoming commoditised and are available off the shelf: *"Online video is on the same path as most technology – twenty years ago you had to pay millions of pounds to run a TV channel, now you can do it from your basement on a PC. The technology is becoming cheaper and easier to use all the time."*
- However, integration is still perceived to be a challenge for many premium OTT services – especially those wanting to use new, innovative solutions: *"We work with a range of suppliers and partners, but have to manage them tightly to ensure that the solutions fit together seamlessly. We have a tech team in-house, who spend much of their time building bridges between various solutions and working with the suppliers to make things integrate."*
- For this reason, many premium OTT services still choose to build some or all of their software in-house: *"We want to be able to control the roadmap, and ensure that our service solution is fully tailored to what we want to do. It's very hard to build the technology from the ground up, but when we started the suppliers couldn't provide us with an appealing solution at a reasonable price."*

Australia

Executives in Australia claim that the biggest challenge for providers is licensing differentiating content and investing in cut-through marketing – great content underpins the marketing campaigns of the mass-market services, but differentiation is becoming more difficult.

- Acquiring content rights is perceived to be especially challenging in Australia, with a concentrated media market controlling the majority of spend and rights: *“The pay-TV operators have bought a lot of subscription rights, meaning that many titles that are available on SVOD in other markets are not available in Australia. The rights market is incredibly challenging. When you have three or four services competing for the same product, the prices quickly become exorbitant.”*
- Many rights deals are expiring in the next few years, and industry participants are interested to see whether the next set of deals will allow more deals and windows for SVOD providers: *“When the previous rights deals were negotiated, premium OTT services weren't really part of the conversation. It will be interesting to see how new studio negotiations will change – especially with Foxtel owning both the largest pay-TV provider and one of the major SVOD services.”*
- Netflix, Stan and Presto have spent significant sums on marketing in Australia to take market share, and entering as a new entrant is perceived to be very challenging from a content and marketing perspective: *“Between them, Netflix, Stan and Presto have snapped up nearly all of the appealing content rights available in the market. If another company were to enter, I'm not sure that there would be a lot of mass-market rights to buy – regardless of the price.”*

Indonesia and Thailand

Premium OTT services in Indonesia and Thailand are expected to take off in the next few years, as competition intensifies and local players ramp up their investments. However, access to local premium content remains challenging and few consumers are aware of premium OTT services.

- While local content is perceived to be the most appealing to Indonesian and Thai consumers, there is little premium local content created, as most popular TV shows are made for FTA broadcasters: *“There is a lot of content available from local providers, but I don't think that many of the available TV shows would really drive subscription. Consumers are very keen on sinetrons [soap operas], but their repeat value is low.”*
- Executives expect that there may be a market for local movies, especially for content that may be difficult to access elsewhere: *“Having local movies in a good windowing slot could be a way for premium OTT to grow. For many people, it is difficult to access local content unless it happens to be on television – pirates often focus on the international and most popular titles. If you could have local movies on an early window, people might be willing to pay for that.”*
- A major marketing challenge in Thailand and Indonesia is combining consumer education with product differentiation. As overall awareness of premium OTT is low, services are required to simultaneously capture attention, explain how premium OTT works, and sell the product: *“You have*

to spend a lot of money on education, and figuring out how to explain your product in a 30 second TV ad. The worry is that you'll spend your entire budget on education and outreach, and when the consumer understands what the service is, they might then go and subscribe to the service with the glitzy ad."

- Given market uncertainty, it is perceived to be very difficult to raise money for a premium SVOD service in both Thailand and Indonesia: *"It's very difficult to raise money to launch an OTT service. The value proposition needs to be sizable for anyone to dare to make the leap. Especially with the low price point offered by iflix and the other local and regional players, it's hard to make the numbers look compelling."*
- The market bearishness is reflected by the lack of investment by major incumbent media providers. Executives suggest that premium OTT is not yet considered a major threat to existing pay-TV and free-to-air business models: *"The pay-TV providers aren't worried yet; they are still seeing the subscription numbers rising as the economy grows, and are focusing on their core business. Some of the ISPs are partnering with independent SVOD providers, offering their services as an add-on – it's a nice way for them to test demand without taking on any of the risk."*

7 Competitive dynamics

How will competitive dynamics evolve through to 2019?

- Netflix is predicted to play a significant role, owing to its global brand, extensive content library, and ability to invest in content and marketing.
- However, local providers are expected to compete strongly for market share, through more country-specific catalogues and features.
- The Australian market is perceived to already have its three main mass-market contenders in Netflix, Stan and Presto.
- In Thailand and Indonesia, the market to date has been driven by independent providers that are vulnerable to incumbent media companies launching services.

To date, a range of major local companies have launched premium OTT services in the Asia Pacific region. In South Korea and Japan, the major pay-TV and telecoms companies have invested in services such as D-Video (NTT DoCoMo), Uula (Softbank), Tving (CJHV) and BTV (SK Telecom). Australian media companies followed suit in 2015, with the launch of Stan (Nine Entertainment and Fairfax Media) and Presto (Foxtel and Seven West). Investment from these large corporations has spurred market growth, but also raised the barriers to entry.

By contrast, the premium OTT market in Indonesia and Thailand has been primarily led to date by independent providers – key providers include PrimeTime and Hollywood HDTV in Thailand, and international providers such as iflix. However, international services such as HOOQ (Singtel) and Genflix (Orange TV) are starting to roll out across the region. To date, none of these services has gathered significant traction or market share, and the market is still open for new contenders.

Local industry participants believe that competition in the region will be intense, between pay-TV and OTT services, and between local providers, pan-regional offerings and Netflix. However, many of these services appear to be targeting different customer segments. While local competitors in Thailand and Indonesia are offering a price point of \$2-4 per month, Netflix's pricing is similar to its existing plans in North America and Europe, at around \$8-10 per month: *"We're starting off definitely appealing to elites... [if] they pay \$800 for an iPhone, they are comfortable with entertainment in English, and so for them \$8-\$10 is a sweet spot price. Certainly in future years as we do more and more and trying to expand it to the mass market, we can look at additional pricing options, but we feel good about our pricing and the value for these global originals right now."*²⁴

As a result, local executives believe that there is significant potential for local providers to gain traction and win the mass-market with local-language content at a lower price point. However, despite this, there is a strong consensus – at least at present – that Netflix will capture a significant share of the

²⁴ David Wells, Netflix CFO, Earnings call (January 2016)

market, especially in Australia where international English-language content is likely to appeal to local tastes.

In other markets, executives believe that Netflix will need to invest more heavily in local content to gain traction with local providers: *"Nobody is big enough to compete on origination with Netflix, if they choose to play in this space. It all depends on what their priorities are – if they choose to limit their investment in most countries and stick to recycled broadcaster content and second tier stuff from the US, the local providers have more of a shot."*

Australia

Industry participants believe that the three major premium OTT services currently available in the Australian market will remain the dominant players during the next few years, and do not expect to see many new mass-market entrants. However, local broadband may limit take-up and competition from pay-TV is expected to be significant.

- Foxtel dominates the pay-TV industry in Australia – industry participants believe that there is scope for a lower-cost service offering entertainment content: *"Foxtel is really the only pay-TV service in Australia, which means that they can set prices at whatever they like. There's room in the market for a lower-cost service, for consumers who want entertainment content, but who don't want to sign up for the entire pay-TV experience."*
- The premium OTT market is expected to grow strongly, with significant competition between the three largest premium OTT services in the country – Stan, owned by Nine Entertainment and Fairfax Media; Presto, owned by Foxtel and Seven West Media; and Netflix: *"In early 2015, we saw the introduction of three big SVOD services into the Australian market – and they have been fighting since, trying to get the best content and acquire customers. The next two or three years will be a big battle – Netflix is almost certain to win, but it is not yet clear who will take second place."*
- Most industry participants expect Netflix to take the vast majority of market share. Of the local providers, Stan is perceived to have the best strategy to date, but the market is still perceived to be young and fast-changing: *"Stan have been clever at getting content deals with the big US studios – they have invested lots of money in content acquisition. However, unlike Presto, they can't really find synergies between content spend on Stan with the rest of their businesses – I don't know if they will be able to keep spending at the same rate."*
- Quickflix was the first premium OTT service in the market – however, following the launch of the other three services, their market share has dwindled: *"Quickflix is the oldest surviving SVOD service in Australia – they come from a DVD-by-mail background. But they've really struggled to keep up with the new entrants in the market – I don't think they'll be here when the dust settles."*
- Fetch TV is also an interesting competitor in the pay-TV space – offering small premium channel packages delivered over IPTV: *"Fetch offer a pay-TV light package with channel bundles. For most consumers, I would imagine that they are complementary rather than competitive with SVOD services – someone who wants to churn from Foxtel might take Fetch and a premium OTT service."*

- Executives believe that there are few opportunities for new providers, although US studio-broadcaster offerings such as HBO and CBS may be able to gain traction: *"I think that HBO could be successful in the Australian market – their HBO Now service is very compelling. And we can't rule out the big tech companies, if they choose to come here – Amazon Prime feels like the most likely option, but maybe Apple will launch a service."*

Indonesia and Thailand

Executives in Thailand and Indonesia are concerned that premium subscription OTT may struggle to gain traction, given competition from transactional and advertiser-funded content. In each territory, premium OTT is at an early stage in its development, with many local providers still developing their strategies.

- In Indonesia, and to a certain extent in Thailand, premium OTT is very early stage and many industry participants appear to be concerned about the viability of SVOD as a business model: *"A big question for this market is whether SVOD is a viable business model in a market like Indonesia? It is a huge market, but with very low ARPUs. It's not yet clear that a subscription model is suitable for this type of economic environment, and it will be interesting to see how the mass market develops over the next few years."*
- For the majority of consumers, AVOD and TVOD are felt to be more attractive business models: *"Many mass-market services will not be subscription – it doesn't chime with the local mind-set. Most consumers won't have the disposable income to make a commitment for several months, and will prefer free, ad-funded content with the occasional purchase."*
- However, other industry participants disagree, claiming that consumers will be willing to subscribe, if the content offer and pricing are right: *"Consumers will want to access content that they can't get through free TV or piracy, if they can afford it easily. If the SVOD services can make the business work at a low price point and provide a good experience, they might be successful."*
- Despite these uncertainties, Netflix is expected to be an important player, although localisation will be a challenge: *"From a market share perspective, they're likely to take a fairly high share - because their prices are three times as high as the local providers. But I don't think that they will be the most influential provider, unless they localise their service – both in terms of dubbing existing content, and acquiring local movies and TV shows."*
- The main competitors in Thailand and Indonesia are expected to be the local and regional independent providers, such as Iflix, HOOQ, PrimeTime and Hollywood HDTV: *"The independent providers are taking market share and gaining traction – they have a good understanding of the market and their consumers."* Iflix has recently strengthened its position as a key contender in the Southeast Asian premium OTT market, as Sky UK chose to invest \$45m in the service²⁵.

²⁵ The Guardian, Sky takes \$45m stake in Netflix rival iflix (9 March 2016)

Local companies – telcos, broadcasters and pay-TV providers – have been slow to move into the premium OTT space in Thailand and Indonesia.

- While some of the pay-TV providers, such as True, are offering TV Everywhere services, and others have invested in AVOD platforms, no pay-TV provider has yet to launch a stand-alone premium OTT service: *“The big media companies don’t really understand subscription VOD services – they don’t feel concerned about the market, and are happy to continue with business as usual. Most of the pay-TV companies have an OTT department exploring the possibility of a service – but they tend to be underfunded, and not a big priority.”*
- Especially in Indonesia, pay-TV penetration is tiny but growing, and providers are fully focused on taking advantage of the growing market: *“The Indonesian pay-TV market is less than 5% of the population – but as the economy has improved in recent years, pay-TV is growing fast. Pay-TV providers are growing their core business, and are not interested in side projects at the moment.”*
- Mobile network operators and internet service providers have primarily positioned themselves as marketing and bundling partners rather than launching services of their own: *“We’re interested in providing premium OTT services to our consumers – if the consumer demand is there, it can be a nice upsell for us. It’s much lower risk than launching our own service – we don’t own any content, so the investment is very large.”*
- While many broadcasters are getting involved in digital video, their starting point is providing a functional catch-up service and making content available to existing viewers: *“We’re not in a position to launch an SVOD service – we don’t own many of the rights, and I’m not sure that our consumers would pay to watch content that is available free on the TV. We are working to improve our catch-up service, and will eventually serve ads around that, but a premium service is not in our immediate future.”*

8 Specialist services

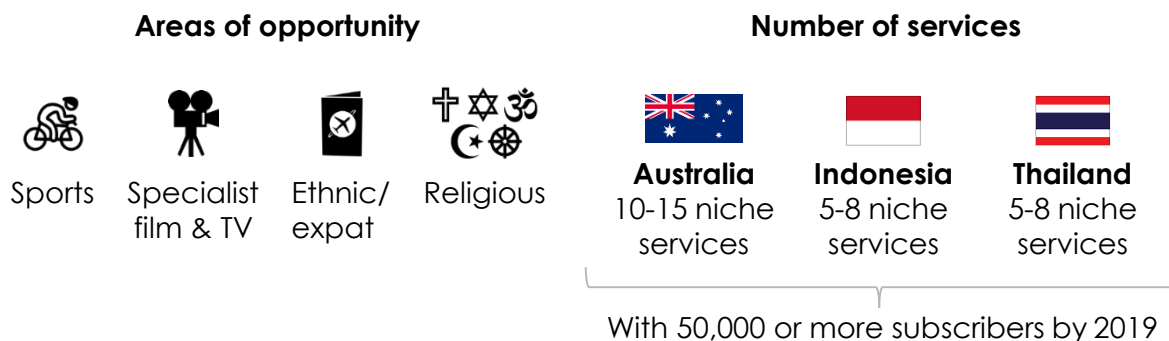
Compared to other areas of the world, there are very few specialist premium OTT services currently active in Asia Pacific. Executives believe that this is primarily due to two factors:

1. Underdevelopment of the SVOD market in general – in most markets, the niche and specialist services have gained traction after the mass-market services are reasonably well established.
2. Cultural and language variations across the region, making it difficult for services to launch internationally.

However, over the next three years, more niche services are expected to launch, as infrastructure improves and consumer demand develops.

- Mass market providers across the region are already offering a diverse range of content, in addition to scripted entertainment – for example, Genflix in Indonesia offers live football content, and Stan in Australia has a fairly extensive catalogue of children's TV and movies: *"For certain types of content, such as sport and kids, you have a very wide base of fans. It's a nice perk for subscribers, and drives consumer loyalty if they can get all their favourite content from one place."*
- Similarly, industry participants in Thailand and Indonesia believe that substantial local content libraries are available and relatively inexpensive to license, although digitisation may be a challenge: *"A lot of Thai production companies still have their archives on tape – if there were interest in old local Thai shows, there's a big task to convert old, decaying tapes into digital files."*
- Executives believe that there may also be opportunities to provide event-based content at relatively low cost, as part of a fan-focused offering: *"Sports, and arts events are increasingly filmed – in Australia, people watch surfing competitions online. You might need three cameras and a marketing budget, but if you own the event rights, the cost of setting up a service is low. You can run it from a standard PC, or host it on Amazon Web Services."*
- Services catering to expats across the region are also believed to have real potential: *"There are big expat communities across Asia and Australia – from US and Europe, and from other Asian countries. Because the cultures are so different, I think that there's a lot of scope for expat services, showing local content from their home countries and in their languages. It's a need that's not catered for by local broadcasters."*

Exhibit 12: Expected genres and number of specialist services



Australia

- In Australia, industry participants expect that lifestyle services will be able to gain traction: *“We have a very outdoorsy culture, so apart from the obvious sports, I think that there’s scope for various lifestyle services – yoga, DIY – though it would have to be a different proposition than the free services available now.”*
- Industry participants expect to see between 10-15 specialist services with more than 50,000 subscribers, of which around 3-5 services are sports-oriented, and 1-3 each of children's and expat-focused services.

Indonesia and Thailand

- Executives in Thailand see premium OTT education services to be a natural progression from online tutors, which are currently very popular: *“People are currently paying a lot of money for online tutors. It wouldn't be difficult to sell a curated set of videos with top tutors, or a similar service.”*
- In Indonesia, Muslim content is expected to have appeal: *“We're a religious country, and many are quite strongly influenced by their faith. I think that Muslim content could be quite popular.”*
- Industry participants in Thailand and Indonesia are more cautious than their Australian counterparts, predicting 5-8 specialist services in each country to have 50,000 subscribers by 2019. In both countries, the most attractive niches are believed to be specialist film, sports, kids and music services.

9 Conclusions – premium OTT in 2019

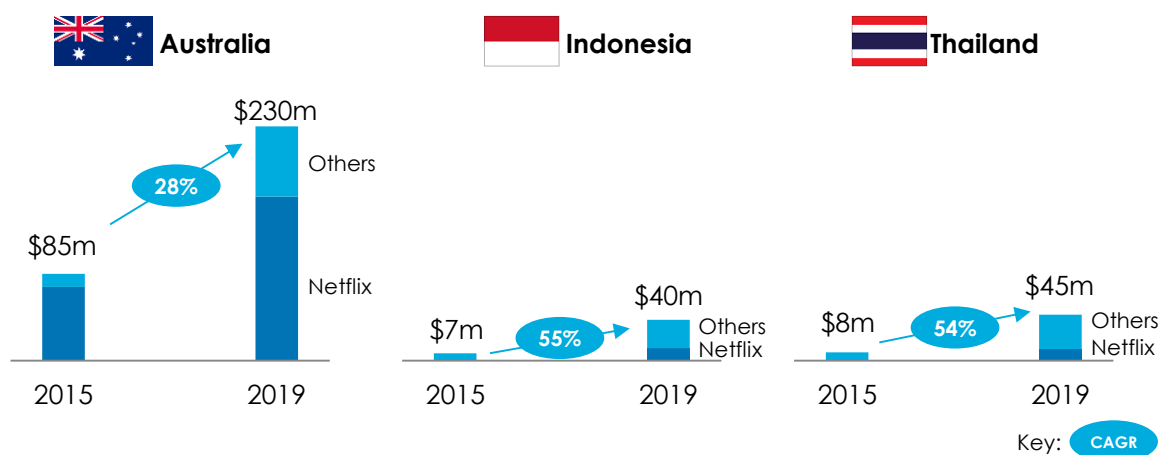
During the next three years, industry participants expect to see significant growth in the premium OTT market across Australia, Indonesia and Thailand – but the market to date is underdeveloped, and there is significant uncertainty about the scale of the opportunity.

- **Early stage markets undergoing rapid change.** All three markets are perceived to be at an early stage, with new entrants and existing media companies defining their strategies and competing for position: *“The market is defined by a marked lack of certainty – everyone seems to have an OTT strategy, but relatively few products have entered the market to date.”*
- **Australian premium OTT market is developing rapidly.** In Australia, three major services (Netflix, Presto and Stan) launched in early 2015, greatly raising consumer awareness through extensive marketing campaigns: *“Everyone knows about premium OTT – whether they want it is another question, but the marketing around it has been huge for the past 12 months.”*
- **Indonesian and Thai markets expect increasing investment.** Although a wide range of local media companies have already entered the premium OTT market, many of their services remain at a very early stage in their development. Due to a lack of resources, most offerings are undifferentiated, but industry participants expect that the market will develop over the next 12-24 months: *“...especially the big media groups have not felt threatened, so they have been slow to move. Competition will intensify over the next year or two – we will see new launches, more investment and more bundles and partnerships.”*
- **Infrastructure expected to remain challenging.** Many industry participants do not expect to see significant improvements in the broadband infrastructure during the next three years, which they believe will hold back growth in the market as a whole: *“The OTT market – especially the premium end – is strongly dependent on broadband, otherwise it’s not a good experience. As long as fast broadband is not widely available, mass-market take-up will be very slow.”*
- **Payment perceived as surmountable obstacle.** While credit card penetration is low in Indonesia and Thailand, alternative payment methods are perceived to be accessible to both premium OTT services and consumers – and new solutions are emerging: *“Credit card payment is tricky for international services – but if you’re invested in this market you will want to have relations with the telcos anyway. Setting up telco billing is relatively straightforward, and other solutions such as gift cards and online wallets are increasingly popular.”*
- **Piracy is a challenge, but consumers are willing to pay for premium content.** While illegal downloads are becoming a big problem, many consumers still acquire their pirated content through purchasing counterfeit DVDs, indicating a willingness to pay. Industry participants point to Australia as a success story, having seen piracy decrease by 25% since the introduction of Netflix: *“Some consumers will always pirate – that’s inevitable in any market. But what we have seen in Australia is that users will pay for content when it’s provided at the right time and right price.”*
- **Competitive dynamics dependent on key local and international players.** Forecasting the market is perceived to be highly dependent on the localisation strategies of Netflix and potential responses

from key media companies. The current Netflix catalogue is perceived to be lacking in local content, but incumbent media companies may feel threatened if their current strategy changes: *“At the moment, the Netflix offering is quite unappealing – expensive, international content, little of which is local or properly localised [dubbed]. But if they were to start making or acquiring local content, and really started pushing to take market share, I think that local media companies would start becoming very nervous.”*

- **Netflix expected to remain dominant in Australia.** Netflix was estimated to have about 70-80% market share by revenue in 2015 in Australia²⁶. Industry participants believe that Netflix will retain its dominant position, and that Stan and Presto will have to fight for second place: *“I don’t know if the Australian market is big enough for three premium OTT providers – Netflix is a given, but I think that Stan and Presto will have to work hard to stay relevant and attractive.”*
- **In Indonesia and Thailand, all is still to play for.** While industry participants expect the current set of independent premium OTT services to take market share in the short term, many services have relatively limited budgets and are vulnerable to a large well-funded entrant: *“The potential market is huge – but far from being ready yet. The independent services are in a good place to take market share and learn what works and what doesn’t in these markets, but they might be bought or out-invested by a major media group.”*
- **Considerable growth through to 2019.** Local executives in Australia, Indonesia and Thailand expect the market to grow substantially through to the end of 2019 – roughly tripling in Australia since 2015, and growing between four and six times in Thailand and Indonesia. However, while market participants agree that growth will be substantial, the actual scope of the opportunity is highly uncertain: *“The market is only a year or two old, so forecasting three or four years out feels very difficult. I expect to see lots of growth – but I have no idea whether the market will double or grow by a factor of ten.”*

Exhibit 13: Expected value of the premium OTT market in 2019

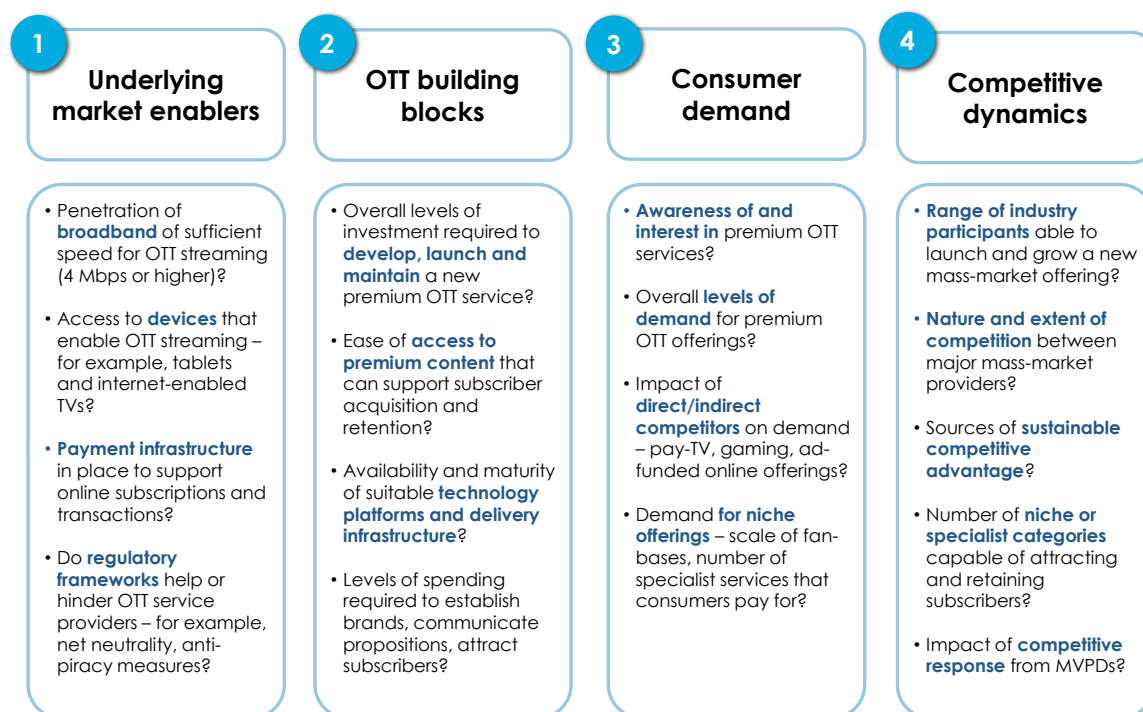


²⁶ Roy Morgan, October 2015

Appendix A: The research framework in detail

We used a simple four-stage framework to explore industry perspectives on the development of the market and competitive environment for premium OTT services during the next three years.

Exhibit 14: Research framework



1. Market enablers

Market enablers comprise the underlying conditions required to support premium OTT services, including broadband infrastructure, penetration of connected devices, payments, and regulation.

Exhibit 15: Market enablers

| Market factor | Key questions |
|-------------------|--|
| Broadband | <ul style="list-style-type: none"> • Are broadband speeds sufficiently fast for OTT services? • Do people who are interested in OTT have access to sufficiently fast broadband? • Is mobile internet a major enabler of OTT services? |
| Devices | <ul style="list-style-type: none"> • How many consumers have connected devices? • What devices are the most important for the growth of premium OTT – tablets, smartphones, connected TVs? |
| Payment | <ul style="list-style-type: none"> • How quickly is adoption of credit cards growing? • Are OTT providers enabling alternative payment methods – e.g. bundled with utility bills, as top-up cards, through mobile payments? |
| Regulation | <ul style="list-style-type: none"> • How are premium OTT services regulated today – in the wider context of broadcast regulations? • How is piracy and copyright infringement being tackled? |

Success factors and high-level business requirements

Success factors for generalist and specialist OTT services vary significantly, notably in relation to investment requirements, given the costs associated with licensing and originating significant volumes of premium film and TV content, attracting and retaining subscribers, and delivering services to the mass-market.

Exhibit 16: Success factors for premium OTT

| | Generalist services | Specialist services |
|----------------------------|---|---|
| Capital | High levels of up-front investment, sustained spending over time | Up-front investment to develop and launch, continuous spend to operate |
| Content | Large volumes of mass-market film, TV drama and comedy – local and/or international | Access to unique or exclusive content with appeal to target audience – at the right price |
| Product | High-quality product widely available across multiple devices and ecosystems | Targeted product available to key audiences on selected platform |
| Brand and marketing | Ability to establish trusted brand and to spend heavily on marketing | Clear low-cost route to target audience with distinctive or unique offer |

Consumer demand

The project team used a simple framework to explore industry perspectives on future levels and patterns of consumer demand for premium OTT services, focusing primarily on issues around awareness, willingness to subscribe, and levels of differentiation.

Exhibit 17: Consumer demand factors and indicators

| Demand factor | Key questions |
|---------------------------------|--|
| Awareness | <ul style="list-style-type: none"> • Are consumers aware of what premium OTT services are available to them? • Do they understand how premium OTT services work, and how to access them? |
| Willingness to subscribe | <ul style="list-style-type: none"> • Are consumers willing to pay over the internet? • Are consumers willing to pay a monthly fee for film and TV content? |
| Access to substitutes | <ul style="list-style-type: none"> • What other services are competing to fill the same consumer needs – e.g. broadcast TV, PVRs, online video, games? • How are premium OTT services differentiating themselves from other forms of entertainment? |
| Number of services | <ul style="list-style-type: none"> • Are consumers likely to take a premium OTT service instead of, or in addition to, a pay-TV service? • How many services will a consumer subscribe to – across both generalist and specialist providers? • How advanced is bundling/platform aggregation of services? |

Competitive dynamics

At a high-level, three broad categories of competition are perceived to affect the competitive dynamics of the premium OTT market:

1. Competition between well-established mass-market premium OTT providers, such as Netflix, and new entrants, such as pay-TV providers, studios, internet businesses and technology providers.
2. Competition and cooperation between mass-market premium OTT providers and established MVPDs.
3. Growing competition between mass-market aggregators and niche or specialist OTT providers, as mass-market providers look to deepen and extend their content offerings.

Our framework sought to explore the perceived strengths and weaknesses of different types of potential mass-market premium OTT provider:

- Netflix
- Other independent services
- Pay-TV providers;
- Mobile networks
- Studios/broadcasters
- Platform-based services.

In addition, we discussed the prospects for different types of niche service, across various genres: kids, sport, arts and culture, music, politics, religion.



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