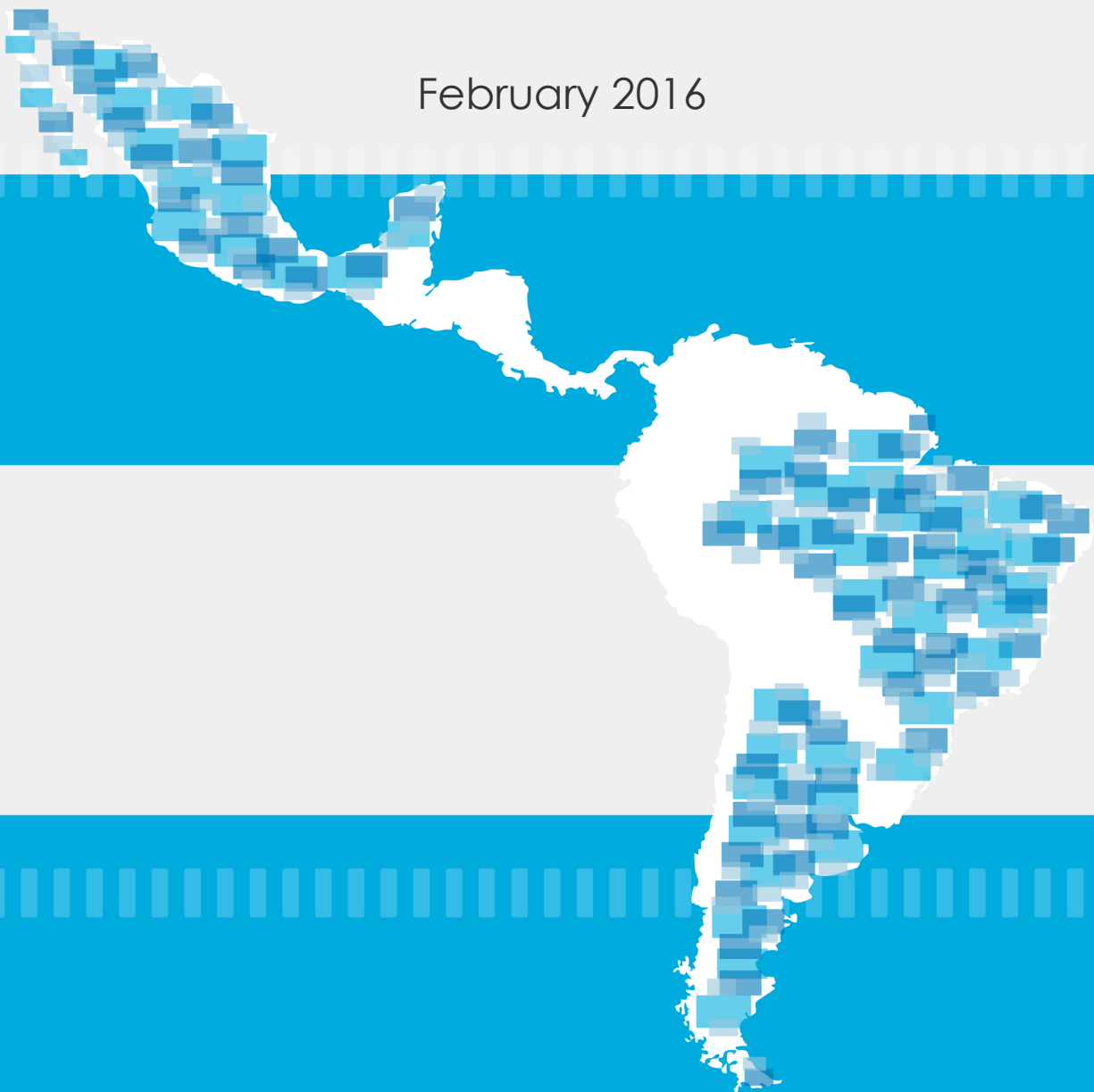




Prospects for Premium OTT in Latin America

A snapshot of industry perspectives on the
evolution of the market

February 2016



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Executive Summary

What are the prospects for premium OTT in Latin America? Is Netflix set to dominate or will local providers capture the hearts and wallets of consumers? How do industry participants believe the market and competitive environment will develop through to 2018? What factors will drive or hold back the market?

In November 2015, Ooyala and Vindicia commissioned MTM to explore the development of OTT market, focusing on three key territories: Mexico, Brazil and Argentina. The project team conducted interviews and seminars with a broad cross-section of senior industry participants in each market, to explore perspectives on future market developments.

Key findings

OTT is widely believed to be at a relatively early stage in its development, compared to other regions – after 4 years, Netflix only has about 2% penetration, compared to 8-12% penetration in the UK, Canada and Nordics. Industry participants attribute this relatively slow rate of development to the poor quality and limited penetration of broadband, economic inequality and high levels of piracy. Moreover, consumers across Mexico, Argentina and Brazil are avid TV viewers and are generally well served by strong broadcasters who invest significant sums in popular local content, broadcast on FTA channels. The region also has strong pay-TV providers, who have grown significant subscriber bases. Awareness and understanding of premium OTT services are still relatively low, with only higher income households both willing and able to pay for additional entertainment content.

Local industry participants argue that currency fluctuations, high levels of consumer churn and limited public information about levels of take-up have led to a marked lack of clarity about the current value of the OTT market across Latin America, with published reports believed to overstate the real value of the market, often by as much as 20-40%.

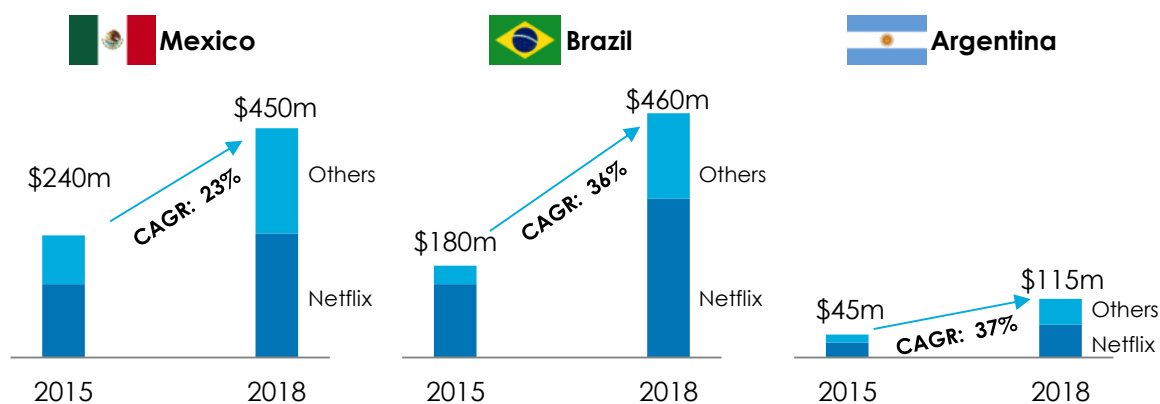
To date, there is a strong consensus that the Latin American premium OTT market has been primarily driven by Netflix – the company launched in the region in 2011, and despite facing initial issues relating to payment authorisation and low broadband penetration, is well established as the dominant provider, estimated to account for 60-80% of current take-up.

However, executives across the region are cautiously optimistic about the prospects for the market and believe that there are unmet local content needs that could be met by premium OTT services, both for mass-market content and more specialist content such as sports and children. Most of the major media companies have launched or are planning to launch premium OTT services, stepping up marketing, increasing the availability of local content, and tailoring subscription models more closely to national and regional needs.

Taken together, industry participants believe that these factors should support strong growth in the premium OTT market across the region during the next three years (2015 to 2018), with the market

growing from \$240m to \$450m in Mexico, from \$180m to \$460m in Brazil, and from \$45m to \$115m in Argentina¹ during this period.

Exhibit 1: Expected value of premium OTT market in 2018



MTM's research study also found that:

- The majority of industry participants expect to see only gradual improvements in underlying market enablers over the next three years, given economic and geographic constraints across the region. For example, Mexico, Brazil and Argentina all taking steps to stimulate investment in broadband infrastructure², which should improve penetration and quality, but these changes will be incremental rather than dramatic. Similarly, connected devices and credit cards are expected to become more widely available, but industry participants do not envisage transformative developments.
- Payment is perceived to be a major barrier to premium OTT take-up – credit card penetration is relatively low across the region and many consumers do not participate in the formal banking system. Consumers are frequently unwilling or unable to pay for goods and services online. As this situation is not expected to change significantly, OTT service providers will increasingly look to offer alternative methods of payment, with approaches varying market-by-market – for example, gift cards are believed to be an attractive option in Mexico but not in the Brazilian market.
- Although technical barriers to developing OTT services are widely perceived to be coming down, the challenges and costs of licensing premium quality content are expected to increase substantially, as competition intensifies. Industry participants believe that the supply of attractive local content suitable for a premium OTT service is limited and note that some local rights holders appear to be unwilling to license content to new entrants, for fear of cannibalising their own offerings.
- Providers believe that the consumer barriers to take up of subscription OTT services will remain significant during the next few years. Although new launches will help to grow awareness, interest in premium OTT video services is expected to primarily come from wealthier socio-economic classes

¹ MTM estimates, based on research with industry participants.

² For example, see: OECD Economic Surveys Mexico (January 2015); ITU, The State of Broadband 2015; ZDNet, *Brazilian government to invest \$4bn in broadband expansion*, (3 November 2015).

looking for international content to complement pay-TV offerings, with the majority of consumers preferring ad-funded offerings, including FTA broadcast TV, YouTube and social media, as well as pirated content.

- Netflix is expected to remain the dominant mass-market premium OTT provider in Brazil, Mexico and Argentina, accounting for more than 50% of the market across the region. However, local pay-TV operators and larger local media groups are expected to have some success in attracting subscribers with new lower-priced OTT offerings. Prospects for niche and specialist services are more uncertain, with relatively few well-funded organisations in the region perceived to have the resources, fan base and content assets required to go direct-to-consumer with a premium OTT offerings. Many of the most attractive rights are tied up in pay-TV services. Nevertheless, industry participants do expect to see new OTT launches in popular genres such as children's content and football [soccer], driven by international studio-broadcasters and local rights holders respectively, as well as in specialist film and, potentially, religious content.

1 Background to the study

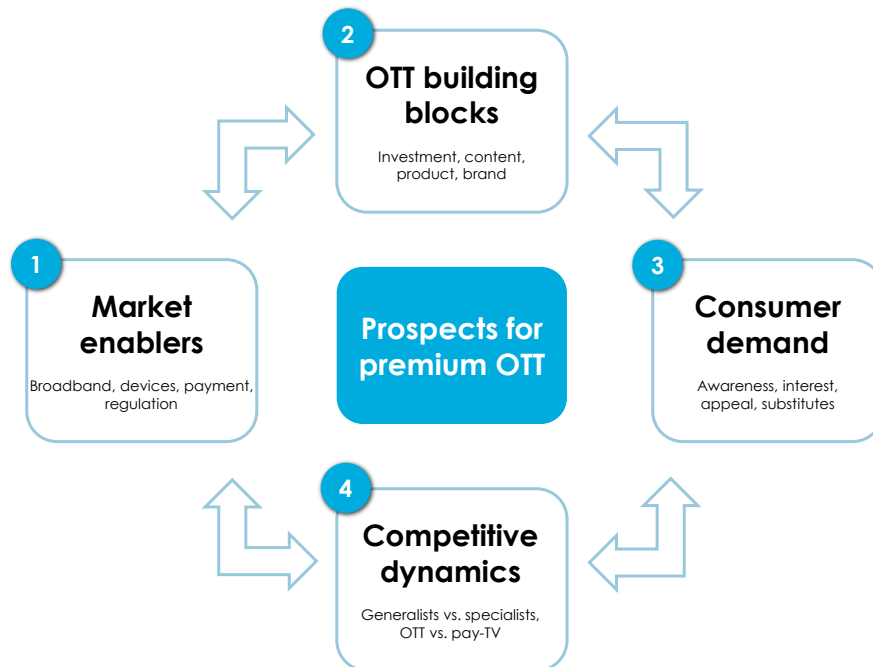
In October 2015, Ooyala and Vindicia commissioned MTM to explore the prospects for premium OTT services in the Latin America. The project is the third in a series of research programmes, with previous exercises exploring the prospects of premium OTT in Western Europe (the UK, Germany and the Netherlands) in November 2014, and in the USA in June 2015.

The research consisted of three main stages:

1. A review of market data and company information about industry participants in the region.
2. A programme of depth interviews with 15 senior industry participants, speaking both to local market experts and to executives with a pan-regional view.
3. A series of three seminars in November 2015, held in Mexico City, Buenos Aires and São Paulo. The seminars involved a total of 60 experienced executive from companies across the technology, media and entertainment industries, including studios and broadcast networks, rights holders, leading multichannel video programming distributors (MVPDs), mass-market and niche OTT providers and online video businesses, producers, and investors. Each session was structured using a modified form of the Delphi technique, a widely-used approach for developing forecasts and predictions about the future, to explore prospects for OTT in each territory.

MTM's research programme and the Delphi seminars were structured around a simple four-stage framework, designed to support analysis and exploration of the various factors likely to impact the prospects for premium OTT in the Latin American market.

Exhibit 2: Research framework



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

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 from the programme of depth interviews and the three Delphi seminars. All sessions were completed under the Chatham House Rule (no attribution without prior permission), with participants were 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.

2 Market context

The Latin American market is large and complex, with wide variations within and across each country in the region, in terms of wealth, demographics, broadband and pay-TV, and content preferences. Importantly, the region has recently experienced a period of economic uncertainty, with sharp fluctuations in exchange rates against the U.S. dollar, making it difficult to compare and contrast developments across different territories and contributing to general uncertainties about the value of the OTT market.

Overview

During the 2000s, pay-TV in Latin America experienced a period of strong growth, supported by strong economic growth and an increasingly wealthy middle class³. As the market developed, leading international broadcasting groups such as Turner, Fox, Liberty, Discovery, HBO and Disney expanded their channel line-ups into basic and premium tiers and, in some cases, acquired local broadcasters. The major regional media groups – notably, Globosat in Brazil, Grupo Clarín in Argentina, and Televisa in Mexico – have also grown their offerings, developing strong FTA and pay-TV offerings, supported by significant investments in local content such as telenovelas and sports rights. Content prices for primetime series have increased substantially, as demand has grown.

However, pay-TV growth has stagnated or even reversed in recent years⁴, despite penetration lagging behind other major economic regions⁵. Many industry participants believe that pay-TV access in higher income groups is approaching saturation, with operators shifting focus to lower income groups.

As OTT has developed, many of Latin America's major pay-TV platforms and various international broadcasting groups have launched TV Everywhere (TVE) services across the seven main markets in the region⁶: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Widely available to existing pay-TV subscribers, notable TVE services include ESPN Play, Fox Play and Fox Sports Play, GloboSat Play and Telecine Play, all of which are available through most major pay-TV operators.

To date, growth in the take-up of subscription OTT services in the Latin America region has been primarily driven by Netflix, although some local providers such as ClaroVideo have also gained traction. Many of the major industry participants have invested in the market, with limited success to date – for example Veoplay, owned by Mexican media giant Televisa, are planning a relaunch in 2016 after disappointing performance⁷. In 2015, the market is estimated to have been worth around \$756m, a CAGR of 58% since 2012.

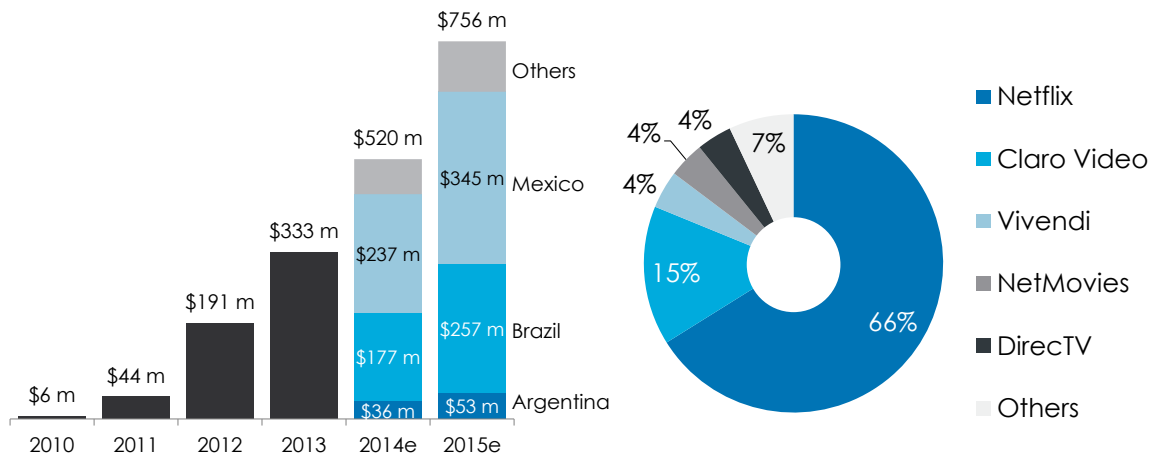
³ EIU and Goldman Sachs, "The Expanding Middle" (2008)

⁴ NexTV News Latin America, *Brazil lost half a million Pay-TV subscribers in four months* (2016)

⁵ ZenithOptimedia, *Americas TV 3rd Edition* (2014)

⁶ Broadcaster websites and trade press

⁷ NexTV News Latin America, *Mexico's Televisa will relaunch its OTT platform in 2016* (2015)

Exhibit 4: Estimated value of the LatAm premium OTT market⁸ and market share by provider (2014)⁹

However, many industry participants claim that the market was actually worth considerably less than this, citing recent currency fluctuations as a major cause of uncertainty: "These estimates are too high – I'm confident that the market in 2015 is worth only around 60-80% of these figures. It's just not that well developed at present."

Market characteristics

Despite Netflix's early entry into Latin America, industry participants acknowledge that the market has developed relatively slowly – for five main reasons:

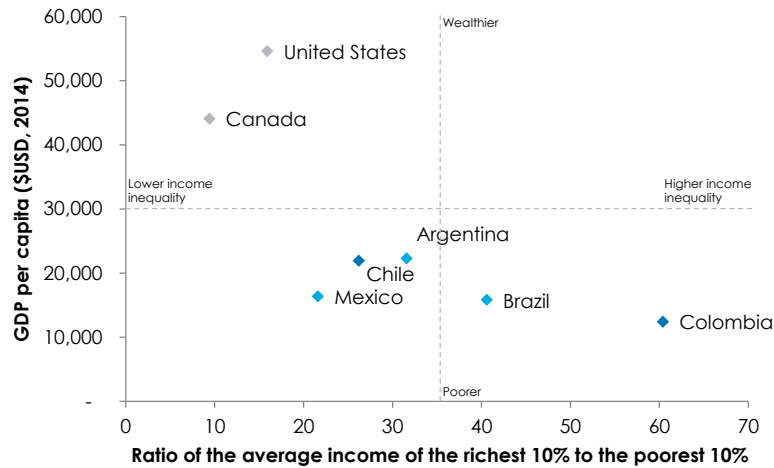
1. **High levels of economic inequality:** Despite strong growth in the middle classes during the early 2000s¹⁰, local executives suggest that the recent economic slowdown and high levels of inequality across the region have slowed the growth of subscription OTT: "The size of the addressable market isn't as large as it could be. Lots of consumers haven't benefited from economic growth in recent years. Only a small proportion of consumers are looking to pay for new entertainment services, on top of what they already have. Most consumers aren't feeling well off at present and are sticking with what they've got."

⁸ Dataxis Intelligence, Estado del video OTT en Latam (2015)

⁹ Ibid.

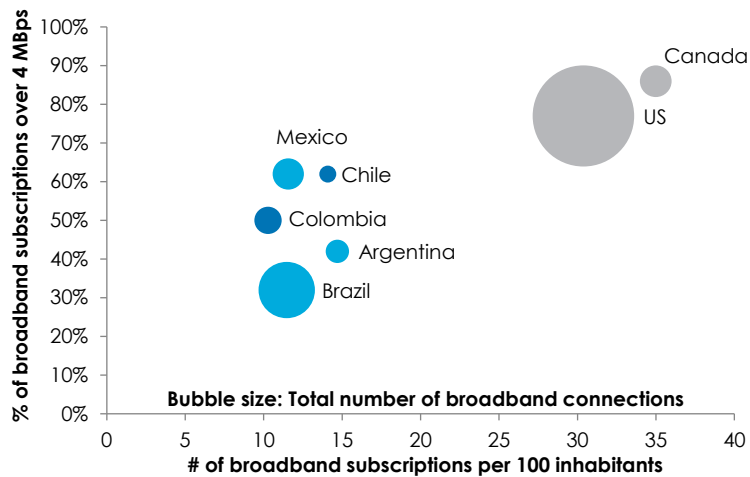
¹⁰ EIU and Goldman Sachs, "The Expanding Middle" (2008)

Exhibit 5: GDP per capita and ratio of the average income of the richest and poorest 10%¹¹



2. **Poor broadband infrastructure:** Low levels of penetration and poor quality services have been a major barrier for services delivered over the internet - there are only 10-15 fixed-line broadband subscriptions per 100 inhabitants in the major Latin American countries, compared to 30-35 in Canada and the US. In addition, of those broadband connections less than 60% in Mexico and less than 30% in Brazil provide a connection faster than 4 MBps, which is considered to be the bare minimum for streaming premium OTT content. Industry participants reference the geography and size of their countries as major barriers to roll-out, but also a slow response from the government and challenging economy.

Exhibit 6: Broadband subscriptions per 100 inhabitants and % broadband subscriptions over 4 MBps (2015)^{12 13}



3. **High levels of piracy:** Industry participants in Latin America are open about the spread and acceptance of pirated content – a recent report by Alianza, a Latin American anti-piracy group, suggests that roughly half of Latin American internet users watch or listen to illegally obtained

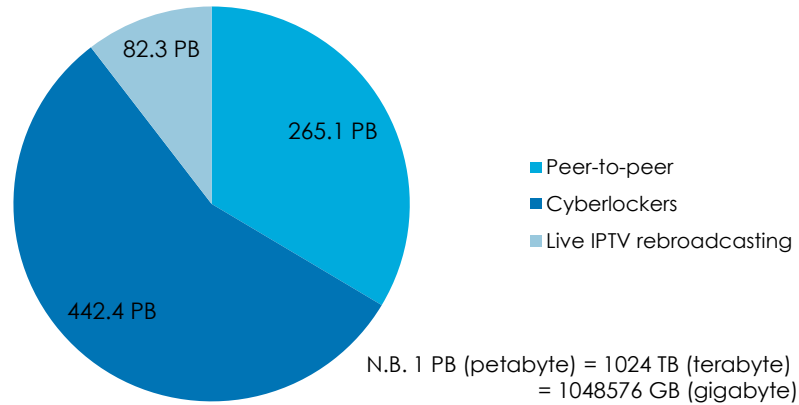
¹¹ World Bank (2014); United Nations Development Index (2013)

¹² International Telecommunications Union (2015)

¹³ Akamai, *State of the Internet* (2015)

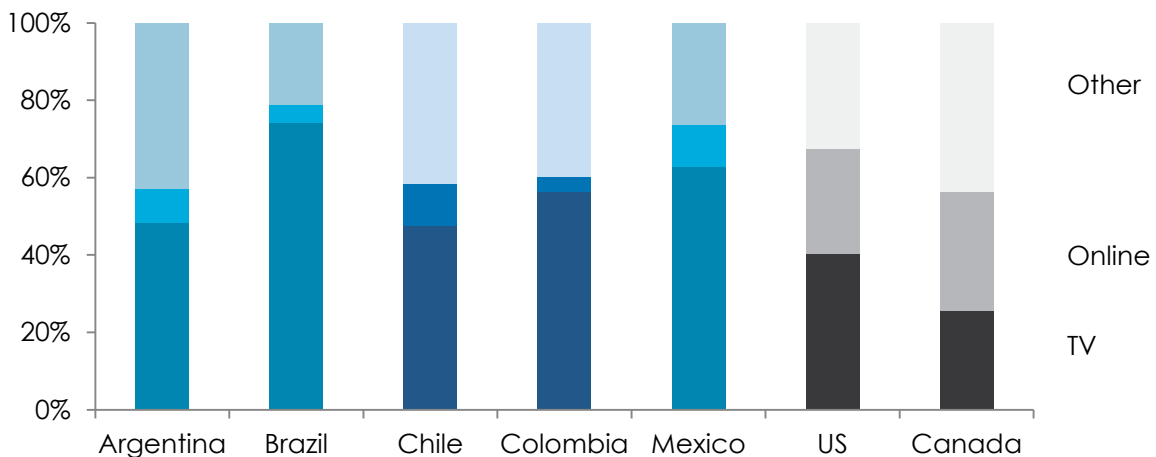
audiovisual content¹⁴. The revenue lost from piracy in the Latin American countries is likely to range between 50% of legal revenue (in Brazil) to over 70% of legal revenue (in Argentina) – compared to less than 20% in the United States¹⁵. The culture of pirated content is perceived to significantly inhibit the growth of premium OTT services in Latin America, as consumers are unlikely to pay for content.

Exhibit 7: Estimated annual bandwidth dedicated to content infringement, South America (2015)¹⁶



4. Strong local TV providers: Throughout Latin America, TV revenues from advertising are still very high, with online advertising not yet representing a significant share of spend compared to the US and Canada. Especially Brazil and Mexico have dominant free-to-air TV markets with substantial market power and strong consumer relationships. In contrast to advanced markets such as the USA and Europe, linear TV viewing time in Latin America has increased rather than declined, and pay-TV penetration is still increasing¹⁷, albeit slower than during the early 2000s.

Exhibit 8: Share of ad spend by medium (2014)¹⁸

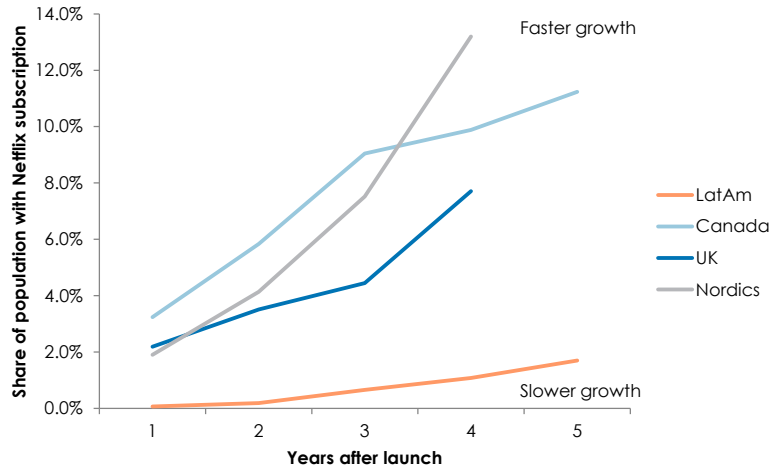


5. Few competing domestic services: To date, only a small number of locally-provided standalone OTT services have gained significant traction with consumers. Local executives suggest that there

¹⁴ Alianza, *South America Television Piracy Landscape* (2016)
¹⁵ BSA, *Global Software Study* (2013)
¹⁶ Alianza, *South America Television Piracy Landscape* (2016). N.B. Does not include Mexico
¹⁷ LAMAC, *Pay TV Metrics Latin America*
¹⁸ GroupM, *This Year Next Year* (2014)

are considerable uncertainties about the scale of the opportunity for domestic OTT providers, given the challenges noted above. Moreover, there is limited evidence to date that the wider TV market is being threatened by new OTT offerings, reducing the incentives to invest in developing competitive standalone OTT services: "OTT isn't threatening TV in the region yet and is developing quite slowly, so there's not been a race to invest."

Exhibit 9: Estimated share of population with a Netflix subscription vs years after Netflix launch (2015)¹⁹



¹⁹ Digital TV Research Ltd.; Emarketer (2015)

3 Market enablers

How will the underlying market enablers change by 2018?

- In Latin America, underlying market enablers are perceived to pose a significant challenge for the growth of premium OTT services – in particular, the **low penetration of high-speed broadband** and the **challenging online payment environment**.
- Industry participants expect to see some improvements over the next few years, particularly in broadband quality and device penetration, but **expect the market to move relatively slowly**, given the prevailing economic climate.

Industry participants believe that underlying market enablers, in terms of broadband penetration and speed, connected devices, and payment infrastructure, pose significant challenges for premium OTT service providers. Industry participants expect to see improvements over the next few years, but many are concerned about the relatively slow pace of change.

The current state of broadband is perceived to be a major barrier to adoption of OTT services – broadband penetration is only 30-35% in Mexico, Brazil and Argentina, limiting potential uptake of OTT services:

- Most industry participants expect to see positive changes to broadband availability and quality over the next few years: *“Broadband will improve over the next few years from both a penetration and quality point of view – at the moment the penetration is OK, but the quality is very poor. Many consumers do not have access to sufficiently fast broadband to stream high-quality long-form video.”*
- There is a strong consensus that improved broadband quality should help to support growth across the market: *“What will change is the pricing and speed – faster internet for less money. There’s a big difference in consumption of long-form video if you have good quality broadband – if you have to wait for it to buffer, it’s a much worse experience and reduces your viewing time.”*
- However, the pace of change is expected to be slow: *“For the majority of households, broadband will see little change over the next three years – the ISPs are not incentivised to change rapidly, and the government is not doing enough to push through reforms.”*
- Although fixed broadband is seen as important, industry participants are uncertain about the importance of mobile broadband, with some executives suggesting that better mobile connectivity will primarily benefit short-form, ad-funded video, rather than premium long-form OTT: *“Some consumers will watch premium OTT on their mobiles, it’s not going to drive subscriptions. Long-form content is not ideal for a small screen – growth in mobile connectivity will primarily be used to watch short-form video, live sports and news.”*

The penetration of connected devices is increasing rapidly, and is expected to play a significant role in encouraging the growth of online video services:

- As smartphones and tablets become more prevalent, industry participants expect video consumption behaviours to change: *"As cheaper devices become capable of delivering high-quality OTT video, we will see an evolution of video viewing behaviour. The growth of OTT will be boosted by cheaper, good enough, devices that can introduce users to consuming video on a personal device instead of a shared TV set."*
- Connected TVs are also expected to have a big impact on viewing behaviour: *"Having a connected TV is shown to really impact the time spent with Netflix, but the update cycle for TV sets is slow ... nearly half of all new TV sets sold in Argentina are connectable – but whether or not they actually connect them is less clear."*
- However, broadband quality remains a fundamental limitation: *"There's scope for growth of connected devices to support growth across the OTT market – but if the underlying infrastructure doesn't allow for smooth streaming consumers will be unwilling to pay. I think devices changes are going to have a limited impact."*

The lack of online payment infrastructure is also seen in all three markets as a major barrier – credit card penetration is low, and a large share of the population are unwilling and/or unable to pay for online goods and services:

- Industry participants note that online payments remain a significant challenge for OTT providers: *"Across Latin America, there are problems with bank accounts. Credit card penetration is very low – and it can be very difficult to get a credit card, even if you would like to have one."*
- In addition, there are trust issues relating to online payment – many consumers are unwilling to share card details online: *"The economy is moving slowly towards online payment systems, although not via credit cards. But consumers don't trust online sites with their details – you need to be established as a trustworthy brand, which can be challenging for new entrants."*
- As a result, local providers are adjusting their strategies and are looking to offer alternative payment methods: *"Many OTT providers are looking at alternative ways to pay – through cellphone providers, pre-paid cards, giftcards. Online payment is a big issue – the sense is that many consumers are interested in premium OTT content, but aren't able or willing to pay online."*
- However, alternative payment methods, especially those involving offline purchases, can present challenges: *"Offline payment methods are not suitable for OTT services. You want to buy something and access it right now – rather than going to the gas station, waiting for the payment to go through, and then watching your content. Recurring subscription is another challenge, if you can't bill monthly – a yearly subscription is a big commitment. It's a big challenge for service providers to make it easy for consumers to pay every month, without a contract or commitment."*

Variations by market

Across the three markets, local executives emphasise different challenges relating to underlying market enablers:

Mexico

- Industry participants in Mexico highlight the potential of “dark fiber” or private fiber networks, which may compete with government infrastructure and provide fast broadband connections to a larger set of consumers: *“Fibra oscura – dark fibre connections owned by private companies – could be a huge improvement in penetration. Currently America Movil has a monopoly on fibre networks, and increased competition would be good for consumers.”*
- Local executives also perceive that gaming consoles could play an important role in providing connectivity and enabling payment: *“Many younger consumers are watching video content through their gaming consoles, they’re essentially set top boxes with games ... PlayStation also have an interesting method of monetisation, where you buy points that you can use to pay for anything, and you don’t need to provide credit card details. Bundling on such a platform would be attractive for some OTT services.”*

Brazil

- Executives in Brazil do not perceive gift cards to be a viable form of payment in Brazil: *“Gift cards are not at all widespread in Brazil – it’s cultural, we are one of the few countries where even iTunes don’t sell gift cards. There is some penetration of limited debit cards from national banks, but it’s still a cash economy for the C [lower] class.”*
- Brazilian market actors are also highly concerned about the slowing economy as a major barrier to OTT services: *“The economy is a big issue, slowing growth in every area. The exchange rate against the dollar has halved, making international OTT services much more expensive – and consumers do not have spare cash to spend on entertainment. Local services are also affected by how everything is more expensive – from digital cameras to cloud storage.”*

Argentina

- In Argentina, market participants feel that the current change of government will have a profound effect on the prospects for OTT: *“Argentina is going through a big change with the new government – we are thirsty for new technology. The outgoing government has restricted the import of smartphones and devices, and limited the roll-out of broadband – I think that we will see big growth in all things digital as those restrictions are lifted.”*

4 OTT building blocks

Will it become easier or harder to build a successful premium OTT service by 2018?

- Latin American industry participants perceive the greatest challenge in building an OTT service is **differentiation and marketing** – communicating the benefits and unique features of their OTT service to consumers.
- Acquiring **mass-market rights** is felt to be difficult – international content is expensive and local content rights is often retained in-house by broadcasters and pay-TV for their own OTT services.
- Local executives expect to see an **increased number of niche services**, especially services offering original content with a specialist following.
- Participants agree that the **cost and challenge of technology is steadily decreasing**, especially for services requiring less complex features and functionality.

Mass-market services

Latin America is perceived to have significant potential for OTT services. However, industry participants feel that the market will become more competitive, as well-funded local incumbents invest to grow their offerings. In particular, industry participants expect content to become increasingly challenging to acquire, with many key rights tied up in existing licensing deals:

- Many local executives believe that existing services focus too heavily on US content rights: *“To date, local SVOD providers have tried to beat Netflix at their own game – by having exclusive US content rights. It’s a game they can’t hope to win. It will only become more expensive and difficult to acquire the content that will actually drive subscriptions, such as Game of Thrones – and having it exclusively.”*
- As a result, new OTT service providers often attempt to differentiate themselves from Netflix, by providing alternative content and attempting to leverage their market power: *“All the pay-TV companies are trying to protect their rights from Netflix, to ensure exclusivity. Any agreements and negotiations with pay-TV channels are increasingly tough because they want the SVOD rights exclusively – if you also sell to Netflix, they’re not interested.”*
- However, industry participants are concerned that there is limited local content which would be attractive to a premium OTT service: *“There isn’t a lot of premium local content that would really appeal to a high-end service. There’s lots of free content on free TV, but few people would pay for it. Latin American content like Narcos has appeal, but there are very few similar shows, and most are fiercely protected by their owners for their proprietary service.”*
- Opinions were mixed during the seminars regarding the importance and cost of original content – certain participants feel that it might drive down the overall cost of content: *“As Netflix are focusing*

on a narrower range of content and providing more originals it will drive down content costs in the market – there will be more content available to buy for other SVOD providers.”

- However, others expect that original content will be required to operate a successful OTT service, adding to the risk and expense: *“Netflix has changed the rules of the game – in order to compete you need to have original content, which is expensive and difficult to produce. It will be very challenging for local providers to achieve similar levels of spend for shows.”*
- Participants feel that an important differentiator from Netflix could be curated content: *“What Netflix currently doesn’t have is a very good recommendation engine – we are seeing success with services that are either providing a smaller set of content and refreshing it regularly, or creating curated lists by human tastemakers. Many consumers are overwhelmed by choice, but Netflix’s recommendations aren’t always reliable – we prefer having a human create pre-curated lists.”*
- Another key feature that is currently not strongly present in the Latin American market is linear channels delivered over OTT – while industry participants see infrastructure as a barrier to this, it is perceived as a potential growth area: *“For many types of content, VOD is not interesting, you want to watch it live. If the networks can become good enough to deliver live TV in good quality over OTT, I believe that we will see significant market growth.”*

The biggest challenge for OTT services launching in Latin America in coming years is expected to be building a differentiated brand. As multiple entrants compete to attract consumers and take market share, it will become harder and more expensive to stand out and attract a subscriber base.

- Industry participants expect to see a significantly larger share of capital go to marketing and customer acquisition as new services launch and compete for market share: *“Brand and marketing is incredibly difficult and only getting harder. The people who are currently in the market have made mistakes and figured out what does and doesn’t work – it will be very hard for a new mass-market service to really stand out.”*
- On the other hand, some market participants expect that OTT services launching in coming years will have access to more educated consumers, who are more familiar with the concept of OTT: *“When Netflix entered the market nobody had heard of them – there is still a long way to go in terms of education and awareness, but the early movers in the market have had to spend a lot of time and money on trying to show people what an OTT product is and why they might want one.”*

The technology required to launch a premium OTT service is becoming cheaper and easier to acquire, according to industry participants, with off-the-shelf solutions being good enough for the majority of services. New features and functionality are expected to be driven primarily by international services, with few innovations originating in Latin America.

- Technology costs are expected to fall for the vast majority of OTT services, as off-the-shelf components and white-label players become increasingly easy to use: *“The costs of launching an*

OTT service have fallen by 75% in the past three years, and the players are faster to deploy and have more features. Technology used to be a big challenge for OTT providers, you had to build it in-house – we've seen massive changes in the market."

- However, for services competing at the top end of the market, specialist features are expected to be more expensive, e.g. search and recommendation: *"If you want to compete with a service like Netflix, I wouldn't underestimate the spend needed to build a great product – they're on every platform, have massive R&D spend to create new features. You can build a simple service very cheaply, but to have a differentiated, frictionless product is still a challenge."*
- In addition, executives perceive that there are still technological challenges remaining in the form of infrastructure and distribution: *"We're definitely hoping that the CDN infrastructure will improve over the next three years – it's closely related to broadband and infrastructure challenges."*
- Industry participants do not expect many new features to be developed out of the Latin American market: *"There's a lot of good technical skills, but to make a really competitive product you need more than that. We have no culture of developing new products – we're able to put things together and integrate, but there's no great R&D tradition of developing new features."*

Capital for launching an OTT service is perceived to be fairly readily available, with many companies and independent investors interested in OTT products. However, the required capital for launching and OTT service is unlikely to come down over the next three years.

- Many large media businesses and venture capitalists are perceived to be interested in Latin America as growth market – and in OTT as a growth industry: *"Investors are always interested in new growth markets, and the SVOD market has shown great growth in other markets. And Latin America is attractive, as OTT is comparatively immature in a growing market. Investors are very open to fund this type of venture."*

Niche services

The barriers to building a niche OTT services are generally perceived to be falling: the technology to build a product is becoming better and cheaper and specialist interest content is available. Accessing target audiences is felt to be challenging, but many niche services are tied to an existing fan-base, such as a sports club or a children's website.

- Most industry participants believe that there are repositories of relevant niche content available: *"There is lots of niche content available – especially as digital capture and processing has become easier. Certain types of content, such as Latin American content and small sports, need the media outlet – they will sell their rights for whatever you can offer, as they have no other outlet."*
- In addition, Latin American participants are very positive about original content on niche channels: *"Some niche content can be difficult to license, but it is much easier in terms of content creation."*

There's scope for creating your own video content that doesn't have enough commercial appeal for a major broadcaster, but that has a specialist following."

- Technology is also felt to be improving rapidly – especially as most niche services do not need to compete on features with the big mass-market providers: *"For the vast majority of niche services, you're perfectly fine with a me-too product – consumers will subscribe because of their interest in the content, and not because of the superior user experience. There are some areas that can benefit from additional features – like kids content requiring additional security features – but they're few and far between."*
- For successful niche services, the lower costs of content and technology are perceived by some industry participants to result in higher margins: *"Niche services tend to have a higher margin – you have fewer subscribers, but you can definitely still be profitable even with 50-100,000 subscribers."*

However, economic factors mean that it will be difficult for many niche services to get sufficient subscribers:

- Industry participants feel that free and ad-funded offerings on e.g. YouTube could be a bigger problem for niche services than for mass-market services: *"There are a lot of niche programmes on YouTube – for many fans, the free content will be sufficient. You need to show a real premium offering to attract subscribers when there is so much free content available."*
- In addition, a very small consumer segment are expected to be able to subscribe to multiple offerings, which will limit the potential audience of many niche offerings: *"The potential target market for any premium OTT service is only a tiny share of the overall population – and the target market who will be able to subscribe to multiple offerings, and who are interested in niche content is only a sliver of that."*
- Therefore, industry participants expect that the challenge for many niche services will be scaling internationally – both in terms of rights and marketing: *"You have to provide a personal service with highly curated and specialist content – but as you don't have a huge local audience you're likely to have to scale it across multiple countries. This rapidly increases cost of marketing and rights."*

Variations by market

In Mexico and Brazil, geographic and cultural characteristics impact the prospects for premium OTT services. In Mexico, OTT services are affected by the proximity to the US, which is the leading premium OTT country; and in Brazil premium OTT services struggle to reach the geographically and culturally disparate regions of the country.

Mexico

- A prevalent theme during Mexican seminar was the proximity and influence of the US. Many executives see an increasing focus from US companies on the Hispanic market, which increases investment in Mexican content but also pushes up prices for quality content: *"The Hispanic market*

in the US is growing strongly, and many US services such as Netflix and DirectTV are expanding their Spanish-language content and pushing to take Hispanic market share. The money for premium content in Mexico is largely coming from the US, for shows like Narcos – but the rights are also going back to US firms.”

Brazil

- A key barrier to Brazilian OTT services, particularly in terms of marketing spend, is perceived to be the size and variety of the country: *“We’re a big country with a large range of different cultures. It’s difficult to make marketing work across the regions, you have to show different messages to different people.”*

5 Consumer demand

Will consumers be more or less interested in premium OTT services by 2018?

- Industry participants perceive **economic inequality** to be a strong barrier to premium OTT services, as only the upper socio-economic classes are expected to be able to pay for premium OTT services.
- In addition, **awareness of premium OTT services is relatively low**. However, as major pay-TV providers and premium broadcasters launch new, well-funded, services, incumbent OTT services are expected to increase marketing spend, raising awareness levels.
- **Piracy is felt by industry participants to be widely prevalent** and accepted, and services are expected to need to provide a tangible advantage over piracy to achieve mainstream demand.

Industry participants in Mexico, Brazil and Argentina all feel that while there is existing consumer demand for premium OTT services, much of the potential target market is lacking in awareness and understanding.

- Industry participants perceive awareness of most premium OTT services to be limited to more urban, educated consumers: *"I don't think that people are very familiar with OTT services in general – they have learned about YouTube, and love social media, but TV content is still largely limited to TV screens."*
- Despite Netflix's early move into Latin American markets, it is not seen as a major consumer brand with well-known content: *"Netflix users are younger, techier, wealthier – it hasn't yet spread to the older generation. When I lived in the US Netflix content was what you talked about in the office – that's not the case here – the water-cooler content is all from the free-to-air channels."*
- OTT awareness is expected to be primarily driven by free services, such as broadcaster catch-up and social media: *"The Latin American consumers are massive users of free online services – Facebook, WhatsApp, YouTube. As broadcasters start moving into this market seriously and offering AVOD catch-up services for free, consumers will start to learn about watching long-form content online, which will lead to a higher propensity to subscribe to premium OTT services."*
- Awareness is also perceived to rise as pay-TV providers and premium broadcasters develop and launch new premium OTT products: *"Lots of pay-TV providers, content owners and independent aggregators are planning to launch a premium OTT service in the next few years. They will invest a lot of marketing money, and more people will learn about it."*

However, as in many other countries, the younger generation is perceived to be more interested in on-demand content, having grown up with internet video services such as YouTube.

- Tablet and smartphone use is more prevalent among younger consumers, and they are felt to be more interested in watching both long-form and short-form content on their connected devices: *“Younger consumers are watching long-form content on their devices – they want to watch their content rather than a communal TV. They don’t understand why they should have to wait for Friday to watch another episode – they want their content anytime anywhere.”*
- Children who are growing up with YouTube and social media are also showing different behaviours in terms of content preferences: *“There are children and teenagers who watch zero professional programming – they watch YouTube, vloggers, Twitch. I’m really interested in seeing whether that will change as they grow older.”*

Industry executives perceive that Latin American markets have well developed and established substitutes to premium online video, reducing the potential time spent with premium OTT services – including free and pay TV, social media and gaming. In addition, piracy is seen as a large barrier to premium OTT – it is wide-spread and culturally accepted, with limited government or ISP regulation.

- Social networks take a large share of time for Latin American consumers: *“People spend a lot of time online – but primarily on social media networks such as Facebook and WhatsApp. The social networks also enable illegal content sharing – people share links to download TV shows and movies on the social media sites.”*
- For content-hungry Latin American consumers, pirating is seen to be the only way of watching certain content without waiting for the content to be windowed into Latin America: *“Piracy is an issue – it’s the only place where you can get all the content that you want. There are big challenges around content windowing and rights. People will sit up until 3am to download the latest episode of a new US show – they don’t want to wait for months until it’s available through local services.”*
- Industry participants also flag the quality of certain illegal products – the user experience is as good as or even better than legal services: *“PopcornTime is in many ways a better product than Netflix – the user interface is brilliant, you’d never guess that it was an illegal product. With that ease of use and access to top-quality content, it is difficult to convince people to pay.”*
- However, market stakeholders generally feel that a great product has the potential to win over current pirates – needs to be an experience worth paying for: *“Consumers will pay for great content and a great experience – the challenge is providing a service that is significant better than the pirated or free offers.”*

Variations by market

Consumer behaviour in Mexico, Brazil and Argentina is related to the overall TV ecosystem – Brazilian consumers are used to a strong FTA market, and are therefore less willing to pay for content. On the other hand, Argentine pay-TV providers have significant market power and have been able to lower prices to retain consumers and combat churn.

Mexico

- In Mexico, industry participants feel that many consumers will be interested in taking multiple services: *“More and more people are choosing to cut their pay-TV package, and instead have one or more OTT services. I think that there is definitely interest in having multiple subscriptions – you’d have Netflix for your TV series, and then you might subscribe to a sports or specialist film service.”*

Brazil

- The free-to-air TV market in Brazil is perceived to be very strong and the provider of top local and culturally relevant content: *“Free-to-air TV will take a long time to weaken; there are massive shows on many networks. The networks are well funded and tap into cultural relevance. In many European markets, TV isn’t very good, so they consume American content – but our TV is great!”*

Argentina

- In Argentina, cable providers are seen to have significant market strength and ability to retain consumers: *“I tried to cut TV from my bundled service, and found it nearly impossible – after many phone queues and operators trying to talk me out of it they offered me a triple bundle for only \$2 more per month compared to an internet-only deal. Many cable operators in Argentina will bundle internet with TV at a very low price so that they don’t report cable subscription losses, at the expense of revenue.”*
- The Argentine executives also note the propensity of their countrymen to only buy the market leading service: *“In Argentina, we are used to consuming only the leading products. This will be a big challenge for new OTT services – once a product has established itself as the top product, it will be very hard to convince consumers to change.”*

6 Competitive dynamics

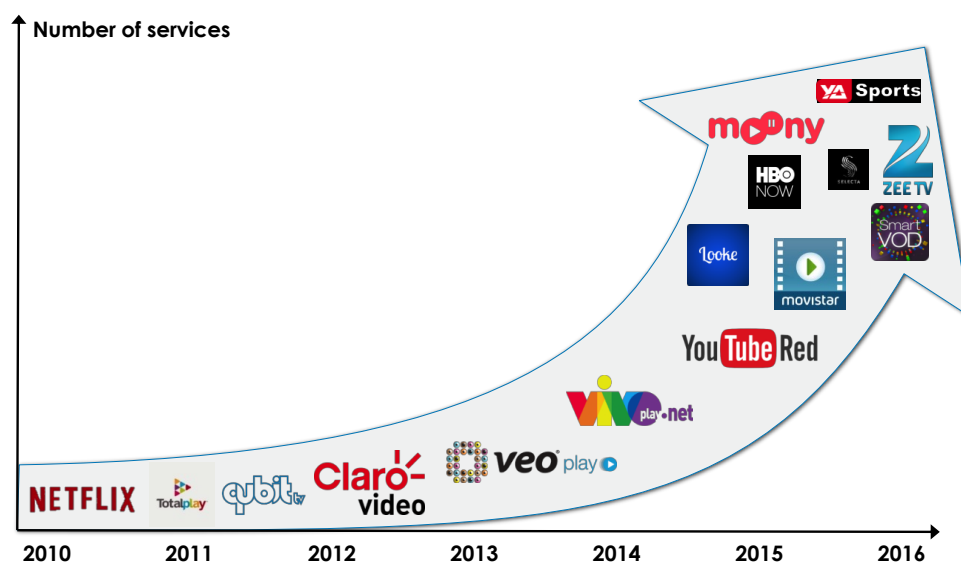
How will competitive dynamics evolve through to 2018?

- To date, the Latin American market is **dominated by Netflix**, with pay-TV offerings such as ClaroVideo competing for second place. However, as a number of new services are launching or re-launching in 2015/2016, industry participants expect to see **increased competition in the mass-market OTT space**.
- While **pay-TV providers are perceived to have advantages** in launching a premium OTT service, certain **broadcasters have very strong market positions** and access to significant quantities of appealing local content – and are expected to also take a share of the premium OTT market.
- Industry participants are positive about the **prospects for niche services** – especially in popular genres such as football and kids, and also for religious content.

Mass-market services

Netflix is currently the dominant player in the Latin American market, and is expected to retain a majority share of all three markets. However, industry participants believe that its share will go down as local providers cater more closely to the existing market conditions and content interests. 2015 has seen a range of new launches in the Latin American market, with more to come in 2016.

Exhibit 10 - Timeline of selected SVOD launches (2010-2016)



- Industry participants feel that major media companies in the region are ramping up their investments in premium OTT, which will help drive future growth: *"The Latin American market has been slow to change – the pay-TV market has kept growing, linear TV viewing is at an all-time high, cord cutting hasn't been a thing. But we are starting to see the impact of Netflix, with consumers less interested in paying for the biggest packages or committing to annual contracts – and pay-TV companies and broadcasters are starting to shift their strategies to respond."*
- Mobile operators such as Movistar were early in the Latin American market, moving from a mobile customer-only model to stand-alone SVOD – but executives believe that they might struggle to retain their position: *"The mobile operators were early movers in this space – the pay-TV providers were nervous about cannibalising their services, and ISPs have been fairly heavily regulated. They have moved to stand-alone SVOD and are doing well – but they will be challenged when content owners and pay-TV operators start offering their own services."*
- Many industry participants believe that pay-TV providers have potential to be the second largest category after Netflix, having existing rights and consumer relationships: *"Pay-TV providers have the rights and the customer relationships existing – nobody has been very successful to date, but it is a challenging market."*
- The seminars also included a number of independent content aggregators, who have set themselves significant growth targets in the Latin American market: *"We think that we can take a significant share of market, by being agile and responsive, offering new features, a great user experience, and offering a mix of local and international content. It's missing in the Latin American market at the moment, and we think that we can fill that space."*
- Industry participants expect that there will be a space in the market for major broadcasters with unique content, e.g. telenovelas: *"Certain broadcasters have unique content which might appeal both locally and internationally – many of the major broadcasters are focusing first on their AVOD proposition, but you could definitely see a telenovelas subscription service with both local and international appeal."*
- However, relatively few broadcasters are perceived to have the content strength to build a successful subscription-funded model: *"For most of the major broadcasters in Latin America, subscription will always be challenging as they are also offered free-to-air. There are a few with really unique content and libraries, but for the majority the content will not be enough to drive subscriptions."*

Local executives, particularly in Brazil and Mexico, feel that advertising has significant impact on the OTT video market as a whole. In general, industry participants expect ad-funded video to take a significantly larger market share than in e.g. US and Europe – due to the lower disposable incomes, as well as cultural acceptance of ad-funded content.

- Market actors perceive price to be a major barrier to take-up of premium OTT services – many consumers are unwilling or unable to pay: *"There are big class issues in Latin America – I think that*

only 5% of the population in Brazil and Mexico are able to easily spend money on premium OTT services. And if you can't pay, you will try to access the content through other means – piracy, or ad-funded services."

- Advertiser-funded content is generally accepted – consumers are perceived to be happier to watch advertising than to pay a monthly subscription: *"All the big content on TV in Brazil is free and ad-funded – people are used to watching advertising and aren't used to paying for content."*
- Given the lower propensity to pay, local executives observe that many pay-TV providers are holding off entering the subscription OTT market due to concerns over monetisation without advertising: *"The traditional TV players have a lot of work ahead of them to make OTT products work, and to begin to merge their linear and OTT audiences. The biggest problem for them is that they don't understand how to monetise content sustainably through a premium OTT service – how do you replace commercials?"*

Variations by market

In terms of pay-TV penetration, market concentration and brand loyalty, there is significant variation between countries – Mexico has large media conglomerates who control large shares of both the free-to-air and pay-TV markets, Brazil has a powerful free-to-air market showing the most popular content, and Argentina has strong pay-TV providers able to tie consumers into triple-play contracts.

Mexico:

- In Mexico, an important aspect of the competitive environment is perceived to be the cultural and geographic proximity with the US: *"The closeness to the US market is a challenge and an opportunity – many major US businesses are investing in Hispanic content, some of which is produced in Mexico. But it can mean that the competitive landscape is very challenging for national OTT services, they don't have the same deep pockets for this type of content."*
- Mexico also has strong media conglomerates who own both pay-TV platforms and some of the most popular free broadcast channels: *"There are very strong companies in Mexico with significant market power – they own much of the most popular content, and have exclusive deals with many content providers. It's difficult to compete in such a concentrated market."*

Brazil:

- The Brazilian executives are the most optimistic about the prospects for national broadcasters, given their large and vibrant free-to-air TV market: *"The major broadcasters will play a big role in the OTT space. They might focus on their AVOD product first, but they are such a big part of the Brazilian media space that they will definitely move into premium OTT, and their content is good enough to provide a really compelling product."*

Mexico and Brazil:

- In Mexico, and to a lesser extent in Brazil, market players are also optimistic about the prospects for YouTube Red: *"Mexico is one of the largest YouTube streaming countries in the world, we watch 8-10 hours per person per month on average, and there are many channels with millions of free subscribers. I don't think that YouTube Red will take a massive share of the market, but they will definitely make a dent, especially in the niche market."*
- Both in Mexico and Brazil, industry participants feel that gaming platforms have potential to take a significant share of the market: *"I believe that the gaming platforms have scope to be significant players in the Latin American market. There's a big appetite for games, and people are already subscribing to games services – the barrier from that to subscription video content is very low."*

Argentina:

- Argentina has a much higher pay-TV penetration than Mexico and Brazil, and industry participants are optimistic about the prospects for pay-TV providers to influence the premium OTT market: *"Much of the Argentine competitive dynamics will depend on the role that pay-TV providers choose to take – they have significant market power, and can block rights from other premium OTT providers. In addition, they have influence over their subscribers – it can be very difficult to downsize or cut a cable bundle, because the providers prefer reducing costs to losing subscribers."*

Niche services

Awareness of and interest in niche OTT services are expected to follow interest in and awareness of mass-market services – however, certain niches such as sport and kids are expected to gain significant traction, possibly driving awareness of other niche and mass-market services.

- Industry participants across the surveyed countries are highly enthusiastic about the prospect for sports – especially football [soccer] has a large, passionate fan-base who would be interested in paying for additional premium content: *"Football [soccer] is a national passion – and really key for TV providers. The big rights are therefore too expensive for an OTT service – but we expect to see multiple services based on behind-the-scenes content, classic games, interviews, etc."*
- Similarly, kids' content is perceived to be an important niche, as parents may feel a strong urge to provide safe and high-quality content for their children: *"Kids is a good driver of premium content, because parents want to make sure that their child is safe – you'd pay for that, even if you only watch pirated content for yourself."*
- Some industry providers feel that niche services can be more complementary to an existing pay-TV service, and therefore attract consumers who wouldn't be interested in cord-cutting or cord-shaving: *"The niche services are complementary and additional in a way that mass-market services*

aren't. You might not be interested in having Netflix because you love your TV content, but you might still want to pay for video of your favourite niche interest – whether it's basketball or ballet."

Smaller, more specialist niches are expected to gain traction more slowly, but as most niche services are expected to be pan-regional, many industry participants are optimistic about the prospects for specialist services:

- Many sports have a distinct set of "super-fans", who industry participants expect will be willing to pay for additional premium content that is not accessible through their standard TV service: *"If you are a fan of sports you can get many more games through a specialist service than with a sports channel like ESPN. Football [soccer] is popular, but many sports aren't getting sufficient airtime – basketball, ice hockey, all the US sports – and have a lot of fans who are likely to pay to be super-served with content."*
- Religious content is also expected to be an important niche, as many churches already provide subscription services, which may include video content: *"Religion is a big part of many Latin American families' lives – they already pay their church, and have a steady stream of video content from sermons and events."*

Variations by market

While all industry participants believe that there are clear opportunities for niche SVOD services in Latin America, the level of optimism varies by market, with industry participants in Mexico being the most optimistic. In addition, local executives feel that different types of content would be suitable for the premium OTT market, ranging from lifestyle and arts in Mexico to religion in Brazil.

Mexico

- The Mexican executives are the most excited about the prospects for niche services, estimating that 30-40 successful niche services could be present in Mexico over the next three years. The top areas for niche services are expected to be sports and specialist film, but personality, music and kids' services are also tipped to have multiple successful services present in Mexico by 2018.
- In Mexico, lifestyle and arts niche services are also felt to be attractive to consumers: *"There's an incredible appetite for lifestyle content – things like yoga, cooking, DIY, fitness – you could easily imagine one or multiple successful OTT services in each of these categories."*

Brazil

- Contrary to Mexico, the Brazilian market actors are not very optimistic about niche content over the next three years, citing the economic downturn as especially challenging for smaller subscription services. However, they still estimate that 15-20 niche services may gain traction, especially in the sports and kids segments.

- Specialist niches that may have additional traction in Brazil include religious niche services, but also adult content: *"The churches are more important in Brazil than in many other Latin American countries – they have great influence and already have many paying subscribers."*

Argentina

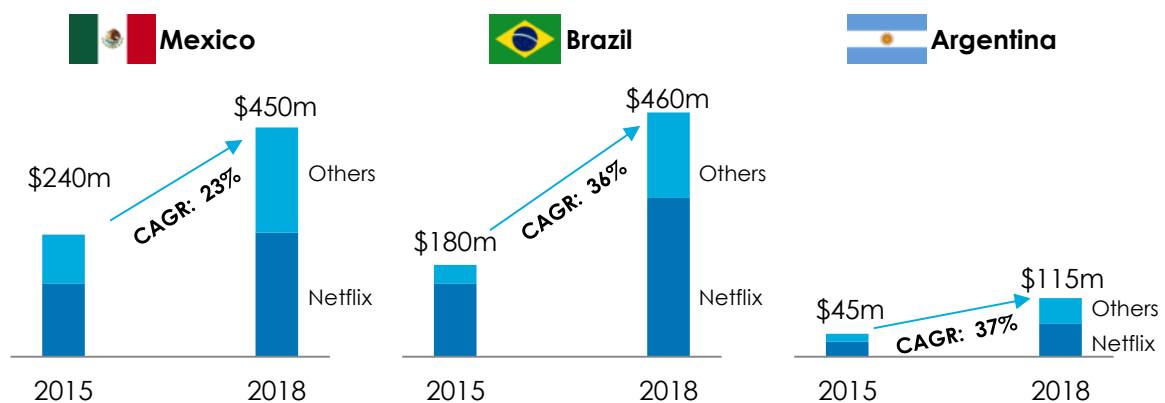
- As the Argentine market is significantly smaller than the Mexican or Brazilian markets, the local executives expect that only 10-15 niche services will gain significant traction in Argentina. However, they also feel that the Argentine market is more advanced in their appetite for niche content than many other Latin American markets (e.g. Brazil). Key niches for the Argentine market are perceived to be sports, specialist film, music and kids, with 3-4 successful services estimated in each niche.
- In addition, the Argentine participants feel positive about the prospects for performing arts services: *"There is great interest in arts and music – surprisingly many people are interested in opera, ballet – and Argentina obviously has a great tradition of tango."*

7 Conclusions – premium OTT in 2018

During the next three years, industry participants expect to see growth in the Latin American premium OTT market, driven primarily by increased consumer awareness and a number of new entrants. The market is expected to be characterised by six major factors:

- **Economic situation and infrastructure expected to remain challenging:** Industry participants do not expect large-scale positive development of either the economy, the broadband infrastructure or of credit card penetration. While broadband quality and penetration is expected to improve, many market actors perceive the rate of change to be relatively slow in all three countries. However, industry participants expect that many providers will roll out alternative payment methods, enabling access to their services.
- **Potential for OTT growth:** Despite the challenging infrastructure, providers still believe that there is significant scope for growth of OTT services – as a lower-cost option to pay-TV, or to access specific content. The most optimistic forecast was in Argentina, by far the smallest market of the three, where market participants are expecting to more than double premium OTT revenues by 2018, growing at a rate of 37% CAGR. In Brazil, market participants expect to see growth at 36% CAGR over the next three years. If valid, this would mean that Brazil will overtake Mexico, who forecast a less dramatic growth rate at 23% CAGR.

Exhibit 11: Value of premium OTT market in 2018



- **Growth driven by new launches and increased investment:** Much of the growth is expected to derive from major media companies launching or relaunching premium OTT services in 2015/2016. The increased competitiveness in the market is expected to provide consumers with additional choice and increase overall marketing spend as new and incumbent providers compete for share. Combined, these two factors are believed to increase both consumer awareness and appetite for premium OTT services.
- **Netflix expected to remain dominant:** Netflix currently represents about 65% of the Latin American market in total, and are expected to retain a market majority in Mexico, Brazil and Argentina by 2018. However, market participants expect Netflix's market share to go down by 2018, as domestic providers gain traction and provide services that are more tailored to the Latin American markets.

- **Domestic content opportunity:** Across all markets, industry participants perceive that the demand for domestic and regional content is underserved – consumers perceive that the existing offers are focused on US-based content, and do not represent national content interests. There may be an opportunity for a national or regional firm to capture a large market share with highly tailored offerings – though the content rights and marketing costs required to compete are expected to be very high.
- **Money = Time:** The Latin American market is perceived to be a great opportunity for many premium OTT services – with a large population, limited language barriers across regions, a developing economy and interest in technology. However, the market is not fully ready for large-scale roll-out of premium OTT services, and new entrants can expect to see limited profitability for a number of years. Having capital reserves may allow companies to be well placed to wait out the market, and be established enough to capitalise as the market develops.

Appendix A: Methodology

MTM's research programme was structured around a modified form of the Delphi technique – a widely-used approach for developing forecasts and predictions about the future by stimulating a considered consensus of opinion across a group of experienced industry participants. The technique is intended to facilitate access to the positive attributes of interacting groups, synthesising knowledge from a variety of sources and industry perspectives to develop a shared perspective on future market developments.

To complete this study, MTM analysed and synthesised a broad range of publicly-available information and industry data relating to the development of premium OTT services in the US market. All sources have been attributed. We then conducted in-depth interviews with 10 senior executives with knowledge of the Latin American market, exploring their perspectives on market drivers and barriers, competitive dynamics and future developments.

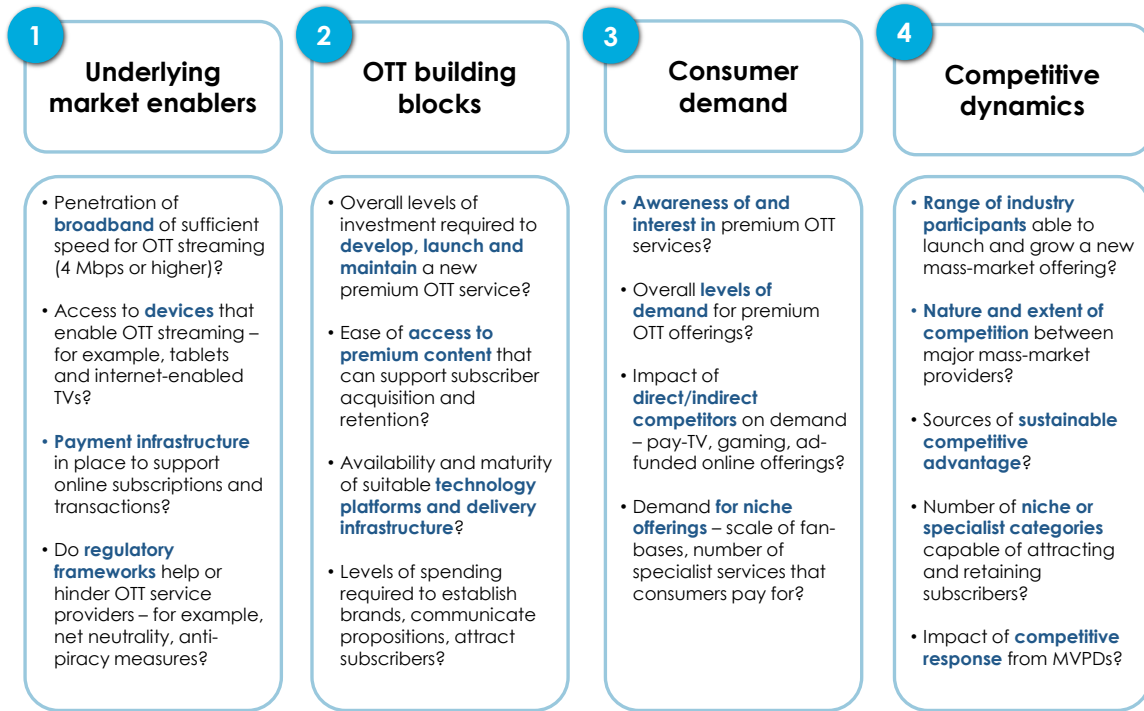
Drawing on the findings from these research steps, MTM developed an analytical framework to structure the Delphi discussions. The framework was used at three specially-convened seminars, held in Mexico City, Buenos Aires and São Paulo. The seminars were attended by a diverse group of experienced executives from across the technology, media and entertainment industries, including studios and broadcast networks, rights holders, leading multichannel video programming distributors (MVPDs), mass-market and niche OTT providers and online video businesses, producers, and investors.

MTM's project team (Jon Watts and Karin Bergvall, with support from Stephen Adshead and Ed Corn) has been supported throughout by key executives from Ooyala (Steve Biondolillo and Raul Garcia) and Vindicia (Bryta Schulz, Kevin Cancilla and Alejandro Couce).

Appendix B: 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 12: 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 13: 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 mass-market and niche 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 14: Success factors for premium OTT

	Mass-market services	Niche providers
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 15: 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 mass-market and niche providers? • How advanced is bundling/platform aggregation of services?

Competitive dynamics

At a high-level, three broad categories of competition are perceived to impact 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 premium OTT specialist services.