

mtm

# THE PROSPECTS FOR PREMIUM OTT

Industry perspectives on the evolution of the global market

September 2018

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# FOREWORD



Netflix, Amazon, and Hulu have proven that over-the-top (OTT) content is not just the future of entertainment – it is the present. But what types of premium OTT offerings will have the most potential and impact going forward? And what are the driving forces for OTT subscription growth – not just in the United States, but around the world?

As consumers across the globe move away from traditional cable TV to premium OTT content, companies are under pressure like never before to keep up with demand and deliver video content

to multiple devices. For content providers, premium OTT is an attractive option because it presents tremendous opportunities. Indeed, the transition to OTT video content opens up a whole new world to sell premium video content and media, and to do so in a way that increases revenue over time by leveraging an increased understanding of the consumer's video consumption habits.

But monetizing video content in the OTT space – sustainably and globally – can be quite challenging, especially as plummeting technology costs lower the barriers to entry and enable a wide range of providers to compete in the market.

As a leader in the field of OTT and entertainment monetization solutions, Vindicia commissioned this report to provide an industry perspective on the global prospects for premium OTT. The bottom line is that premium OTT remains poised for rapid growth around the world, and the organizations that will dominate in this space are those that can embrace innovative approaches to digital video. In particular, opportunities for specialist or niche premium offerings are becoming far more accessible, especially to providers with cost-effective access to unique, high-quality video content and a clearly defined, addressable customer base.

Some may question the ability of niche OTT providers to compete with generalist services like Netflix and Amazon. But specialist premium service providers, with the right mix of content, technology and marketing, are proving that they are able to attract a significant number of subscribers and grow their services internationally.

Consumers around the world have clearly demonstrated an appetite for premium OTT offerings of all stripes. In this report, produced by the international research and strategy consulting firm MTM, we set out to answer many of the most critical questions surrounding premium OTT and provide unique insights into the future of the market. We hope that you find the results both informative and actionable.

**Kevin Cancilla** *Head of Global Marketing, Vindicia*

“Consumers around the world have clearly demonstrated an appetite for premium OTT offerings of all stripes.”

# 1 EXECUTIVE SUMMARY

What are the prospects for premium over-the-top (OTT) services – standalone subscription film and TV services – across the world? How will this vary by region and by market? What kinds of offer will encourage consumers to pay for premium OTT services? How has the global rollout of Netflix impacted local and regional markets? What is the likely impact of direct-to-consumer OTT offerings from the likes of Disney? How are local broadcasters, pay-TV providers and telcos responding?

In Q2 2018, Vindicia commissioned MTM to explore the development of premium OTT services across four regions: Western Europe, USA, Latin America and Asia Pacific. This was a follow-up to a series of regional reports published between 2014 and 2016 with a similar focus. What has changed? What have been the key developments, and what barriers to further growth remain? What is the value of the premium OTT market and how will it grow in the next three years?

## KEY FINDINGS

- **Premium OTT services will grow at an average CAGR of 9.7% by 2020 in the ten countries surveyed**
- **Local, niche and direct-to-consumer (D2C) providers will succeed in securing market share against the generalist giants – including Netflix, Amazon and Hulu.**
- **Connectivity and frictionless payment solutions are key to the onboarding experience and subscriber acquisition and retention.**
- Premium OTT in Western Europe will grow strongly in the next three years. The UK will remain the largest market, with revenues forecast to rise from US\$1.18 billion in 2017 to US\$1.63 billion by 2020, a CAGR of 11.3%
- In the US, Netflix, Amazon and Hulu will continue to dominate Premium OTT revenues overall, but new competition will come from direct-to-consumer offerings from the likes of Disney, specialist services such as Crunchyroll and WWE, and live sports delivered via OTT.
- As a result, US revenues from premium OTT services are forecast to rise from US\$16.38 billion in 2017 to US\$21.22 billion by 2020, a CAGR of 8.9%.
- The market for premium OTT services in Asia Pacific will be driven by pan-regional players, such as HOOQ, Viu and iflix, that focus on local content and are priced for local audiences. Netflix will be the dominant subscription service in the growing Australian market, however.
- Revenues from premium OTT services will grow rapidly in Asia Pacific, albeit from a low base in some cases: Thailand will see revenues rise from US\$66 million in 2017 to US\$108 million in 2020 (a CAGR of 17.8%), with Indonesia rising from US\$26 million to US\$72 million in the same period (a CAGR of 40.4%).
- The market in Australia will see revenues reaching US\$420 million by 2020, up from \$280 million in 2017 (a CAGR of 14.5%).
- In Latin America, improved broadband connectivity is driving growth in premium OTT subscriptions, where local content offerings are bundled with internet access. However, greater connectivity is also encouraging content piracy.
- Mexico will become the largest market in Latin America for premium OTT services by 2020, with revenues forecast to reach US\$678 million, up from US\$410 million in 2017 (a CAGR of 18.3%)

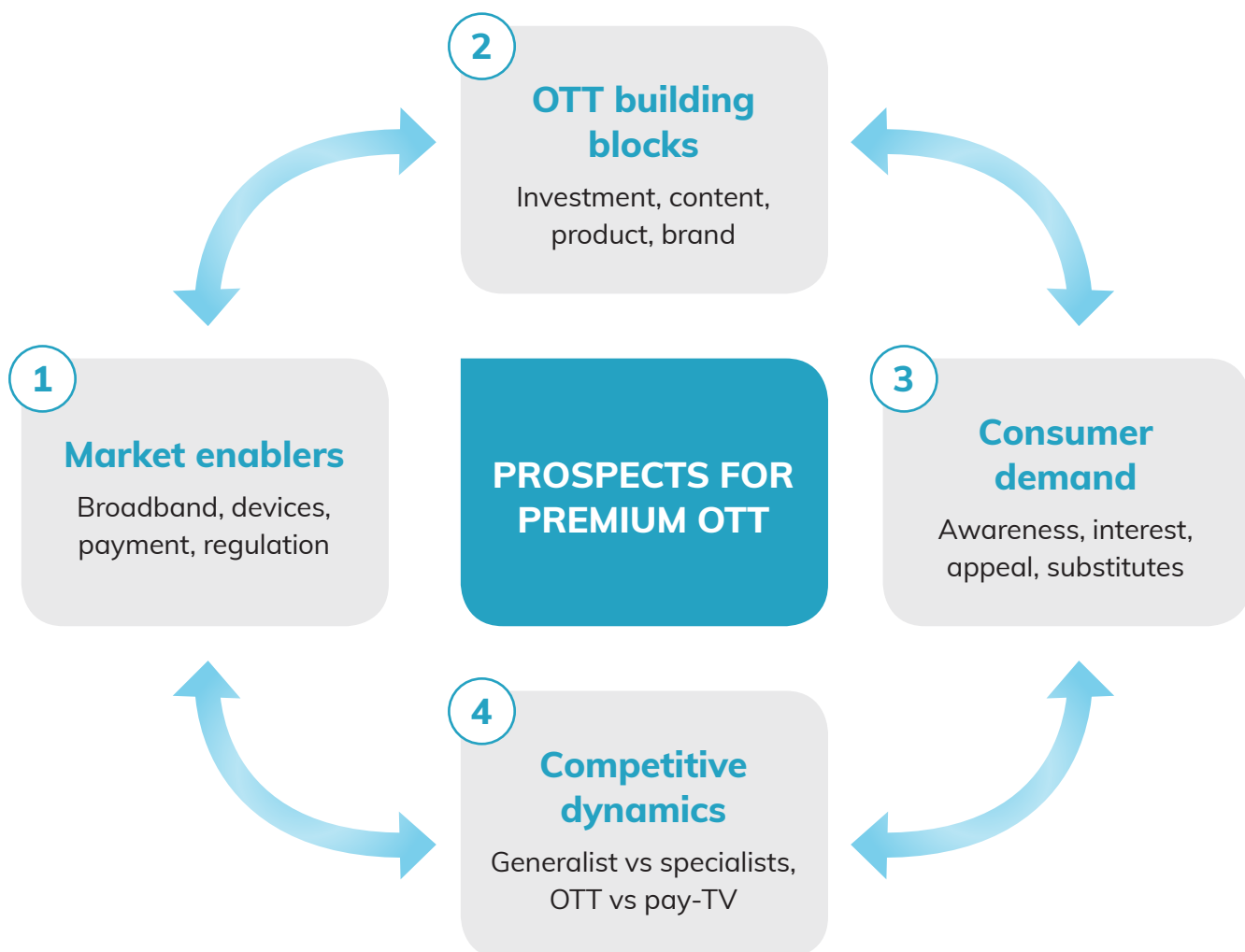
## 2 BACKGROUND TO THE STUDY

Between November 2014 and April 2016, Vindicia and Ooyala commissioned MTM to explore the prospects for premium OTT services via a series of research programs, focusing on Western Europe (2014), USA (2015), Latin America (2015) and Asia Pacific (2016). This project, sponsored by Vindicia, aims to update the global program by examining the development of the premium OTT market across all four regions.

The project team conducted research and in-depth interviews with a cross section of senior industry participants in each region, to explore perspectives on current trends and future market developments.

The latest research program, like the previous iterations, was structured around a simple framework, designed to support exploration of the factors affecting the prospects for premium OTT in each region.

**Exhibit 1** Research framework



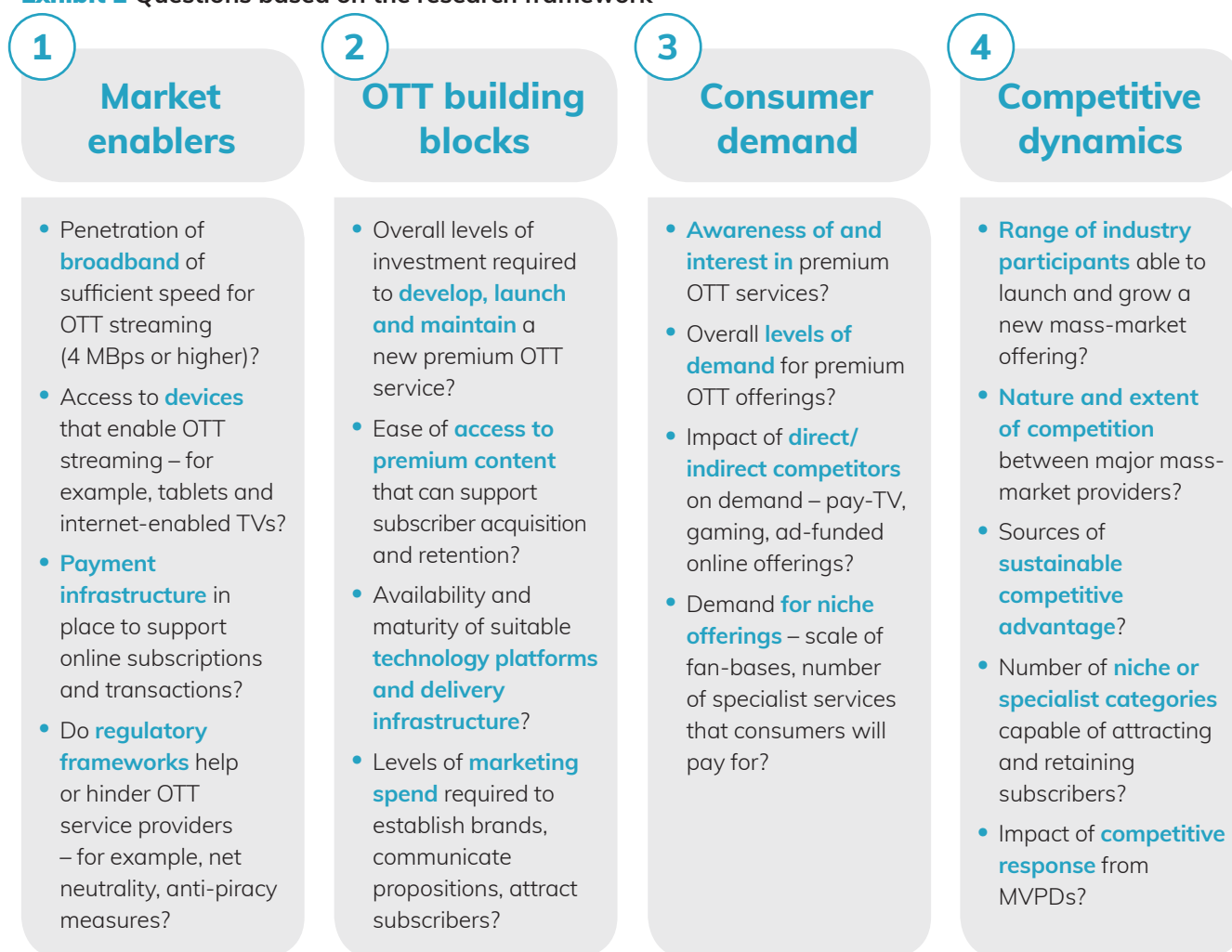


The framework focuses around four key research areas to assess the evolution and development of the premium OTT market – primarily services that charge subscribers for access to high-quality long form video content - in each region:

- **Market enablers:** The underlying conditions required to support premium OTT services, including broadband infrastructure, penetration of connected devices, payments, and regulation.
- **OTT building blocks:** The investment requirements for OTT services, including licensing and originating significant volumes of premium film and TV content, attracting and retaining subscribers, and delivering services to the mass market.
- **Consumer demand:** Future levels and patterns of consumer demand for premium OTT services, focusing primarily on issues around awareness, willingness to subscribe, and levels of differentiation.
- **Competitive dynamics:** The relationships between various types of players in the premium OTT market, including mass-market premium OTT services, new OTT entrants (including pay-TV providers and studios), established multichannel video programming distributors (MVPDs), and niche or specialist OTT providers.

We asked industry executives in each region a series of questions exploring these themes further.

## Exhibit 2 Questions based on the research framework



The research program consisted of two 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.
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.

This report distils key findings for each of the four main regions, focused around the agreed research framework in each case, with an emphasis on regional- and country-level trends. Each section also includes market forecasts on the value of the premium OTT market in each case, based on estimates supplied by interviewees and MTM analysis of all available data.

Unless otherwise attributed, all quotations used in the report come from the program of in-depth interviews that took place primarily in Q2 2018. All 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.

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

### Exhibit 3 Research participants



## 3 WESTERN EUROPE

Our research focused primarily on the prospects for premium OTT services – subscription video services, delivering to connected devices – in three advanced markets within Western Europe: the UK, Germany and the Netherlands, though many of the findings would apply more widely across the region.

### MARKET ENABLERS

#### Broadband and devices

Most consumers in Western Europe are now able to access high-speed broadband, although some regions, notably in rural areas, are less well served: *“The issue [of broadband access] has broadly gone away but there is a big caveat. If we are looking for everyone to have a minimum service level, that isn’t there yet.”*

There is room for improvement in all markets, however, with a huge addressable audience for OTT services to target: *“65 million households in Germany have access to high-speed internet, so they are the audience that can be reached.”*

Other infrastructural improvements, such as the rollout of 5G services, will also boost the ability of providers to deliver high-quality video services across multiple devices at scale, which is still a challenge for the industry: *“We still have a situation where if lots of people are watching a football game at the same time, we face bandwidth issues.”*

Others argue that the growth of the streaming device market is a key factor in the expansion of the premium OTT market. This is contingent not just on consumers purchasing standalone devices such as Google’s Chromecast, or Amazon’s Fire TV stick, but on streaming devices increasingly being offered to pay-TV customers in lieu of a conventional set-top box: French cable provider Canal+, for example, announced in May 2018 that it is offering its 5 million customers an Apple TV: *“We need the streaming device market to grow quicker. The adoption of such devices is really important for the growth of OTT services.”*

#### Payment

The challenge OTT service providers face in integrating and managing payment platforms has been reduced in recent years with the maturity of universal payment gateways. Companies such as Vindicia have managed to make payment almost invisible to the user, though getting users to sign up to a paid service remains a barrier: *“There has been a huge improvement in payment solutions, but for new sign ups there is still friction around creating an account and including payment details. Over time I am hopeful that more solutions will be available that look and feel more like wallets, allowing customers to have even less friction.”*

“Subscription is the growth model for us – rental will always be of limited appeal to a wide base and is not a growth market.”



Preferred payment methods vary by country. While the banks are strong in the Netherlands, for example, and provide popular mobile apps for payment, in Germany, credit cards are less popular. There is a potential appetite for other payment solutions that offer a secure but frictionless experience to consumers who may also have multiple subscriptions to manage: *“Great strides have been made for UX and service design but the way to overcome the final barrier is more ubiquitous use of virtual wallets, where your identity and payments are ready to be used by a third-party site to reduce the number of clicks and forms to fill in.”*

OTT providers are monetizing their content in different ways – through advertising, through transactional video (either rentals or download to own), and through subscriptions. While all options will remain in play, subscriptions are widely seen as the most reliable way to generate revenues in the long term.

## Regulation

Data privacy – thanks to the introduction of the General Data Protection Regulation (GDPR) – has been a hot topic among European publishers in 2018. But for OTT providers, content licensing remains a similarly pressing issue. Traditional content licensing models that were not designed for such services make it difficult for providers to acquire the right content in the right window. Moreover, in most cases there is no rights clearing association to go to in order to get the OTT rights: *“Unlike cable operators, OTT services are not covered under the current regulations. It’s really hard to clear rights with the national broadcasters, for example.”*

Though local OTT players in Europe typically lack suitable commercial guidelines around acquiring content licenses, they do generally have to comply with regulation around rights issues, to a greater extent than the global subscription video on demand (SVOD) providers. While there may be content quotas in some markets (such as France), in Germany, local OTT services run by broadcasters face more regulation than their global competitors: *“We would be very keen for global players like Amazon and Google to be regulated like we are. We have very strict laws around this – we have to really be careful with rights and regulatory issues.”*

## CONSUMER DEMAND

The audience for OTT services in Western European markets is diversifying across a wide range of demographics, with the biggest growth coming from older age groups. This suggests there is a maturity to the market that wasn’t there before, and also creates opportunities for new services targeting older users: *“We have an offering for people aged 60+ and it has gained more subscribers than we expected. Older people have more money, and while the product needs to be easy to integrate into their daily life and to understand, it’s an interesting audience.”*

Consumers are also increasingly interested in paying for a service if it means they can avoid viewing ads – a value exchange that Netflix has helped to popularize: *“If someone doesn’t want advertisements, they can be ad-free by paying a small amount of money. This is an area we expect to grow, where consumers can pay for a premium ad-free service. They could pay to get rid of the ads even if just for a short time – for a weekend, for example.”*

“New initiatives mean there will be more high-speed access in the next 2–3 years. We can reach a lot more than the number that have already subscribed to OTT services.”

Consumers are also more confident about creating their own content bundles. In such a scenario, OTT services need to compete for time and wallet share, not just with traditional TV, but with a host of other activities: *"We are competing for people's time against other entertainment services, sports, gym, family, and work. Everyone is increasingly busy, so we need to put our content on a platter and give customers a great experience."*

For TV platform providers, one response to this trend is to form partnerships, not just with OTT video services such as Netflix, but with other paid-for entertainment products, such as music streaming services: *"Maybe one day we'll partner with someone like Spotify and you'll have the whole package. In the long run this is where the opportunity will be."*

## OTT BUILDING BLOCKS

For OTT publishers seeking to engage and acquire subscribers in an increasingly crowded marketplace, strong brand and curation is more important than offering too much choice. This is especially true of niche and specialist publishers unable and unwilling to compete directly with generalist services such as Netflix.

Building a distinct channel brand is crucial for OTT services seeking to grow. This requires investment not just in marketing – not least through social channels that can generate recommendations – but in programming, with expert human curation a key part of creating an identity: *"Reputations in this space are hard won. You can't just buy a new channel and expect to have a huge audience. What's going to make your service rise above the pack is a strong regimented brand that captures the spirit of all the content in your channel. The role of programmers is as important now as it ever was."*

However, acquiring license for content is still one of the most challenging aspects of the OTT business. New collaborations between players in European markets are emerging in 2018 and may help to simplify what remains a tricky process: *"The rights defer from partner to partner with every TV station in Germany, which makes it complex and not the opportunity that global players are looking for."*

.....  
“The market is going to straighten itself out, and there is going to be only a few brands that will stay around.”  
.....

## COMPETITIVE DYNAMICS

The market for premium OTT services in Europe is clearly growing, although some participants question whether it is yet profitable: *"There is a lot of competition but unstructured approaches, everyone throwing their hat into the ring saying 'I want to be a part of this' but nobody is earning any money. Three years from now it will change, but it is a slowly developing market."*

Given this, further consolidation in the market is expected, as smaller OTT services, unless they have backing from larger businesses, will struggle to build scale: *"I don't believe many niche SVOD services are here to stay – they launch, get to a certain number of subscribers and then stagnate to either disappear or merge with another service."*

However, we are starting to see evidence in several Western European markets of emerging collaborations between public broadcasters and the large commercial broadcast groups. This allows them to combine their on-demand offerings together in a single platform, which may involve a single subscription for local consumers. Services such as NLZIET in the Netherlands allow subscribers to also add premium OTT or SVOD packages to the mix, alongside the on-demand services from the major broadcasters: *“Individual broadcasters are still doing their own thing but they won’t succeed with their own offering. If they combine they will end up with a larger audience.”*

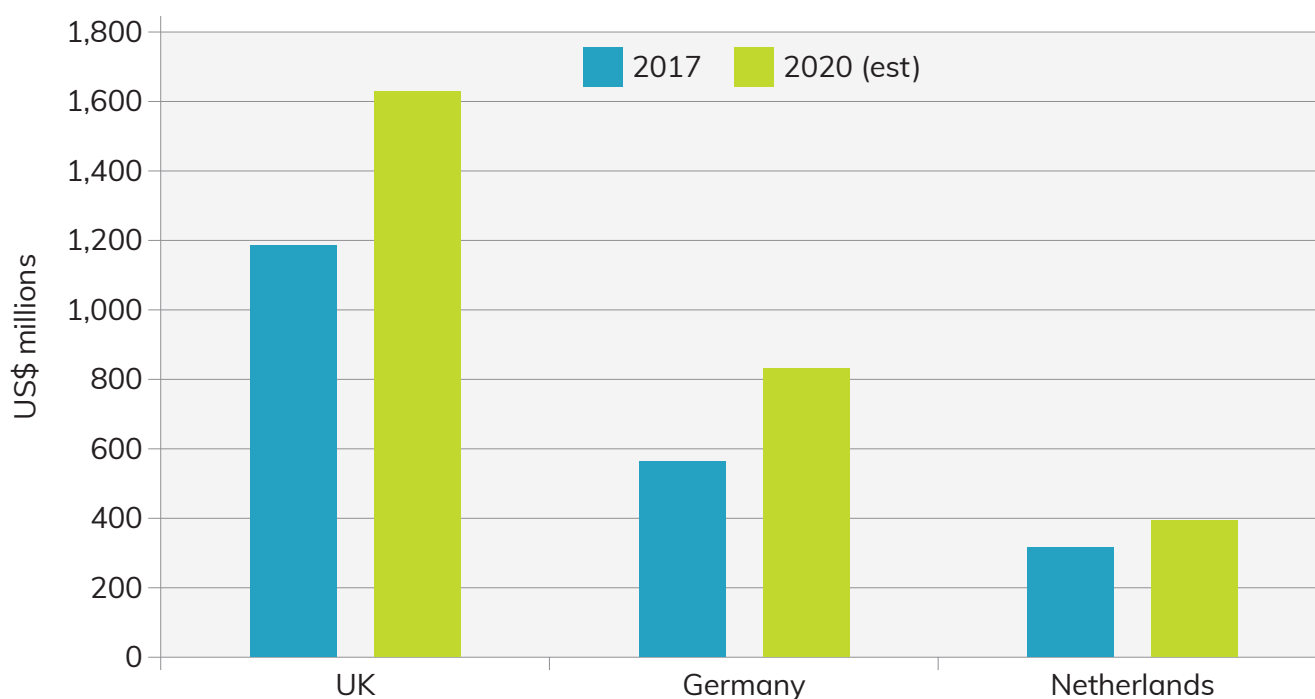
Europe is now seeing content and channel providers partner with cable operators and telcos who are looking to switch to an OTT offering. This will require new business models, but is gaining momentum, as one OTT publisher explained: *“We are in talks with telcos, who are making the business case for a partnership. They would share the data and create a new advertising model. It would cost some margin in the beginning but this is where it’s heading.”*

“With niche services, it’s about providing everything for someone, rather than something for everyone.”

## MARKET FORECASTS

Industry participants believe that the market will grow strongly through to 2020, from just under \$1.2 billion in 2017 to more than \$1.6 billion in the UK, from just over \$550 million to \$830 million in Germany, and from \$318 million to just under \$400 million in the Netherlands in the period. Growth will be driven primarily by mass-market services, with new partnerships important to the further growth of Netflix and Amazon. Local and regional services from broadcasters are also expected to capture a significant share of the market, as are certain content brands with plans to rollout premium OTT services, notably Disney.

**Exhibit 4** Western Europe, expected value of the premium OTT market in 2020 (US\$)



Source: MTM analysis, estimates from industry executives

## 4 THE USA

Our research focused primarily on the prospects for premium OTT services – subscription video services, delivering to connected devices – in the USA, the world's largest market.

### MARKET ENABLERS

#### Broadband and devices

Increased consumer expectations about high-quality video streaming, and expectations of consistency in video delivery, with minimal buffering, create a potential challenge for US companies looking to serve premium video to their consumers. Some executives note with concern that internet speed in the US is only growing slowly, while other markets (notably Asia) are seeing rapid improvements.

Smartphone penetration and usage is high, but recent research by Netflix confirms the trend for consumers preferring to access long-form OTT video content on their smart TVs, which account for 70% of Netflix's viewing globally<sup>1</sup>. Broadband penetration quality in the US is not widely seen as a barrier to OTT market growth: *"In terms of delivering high-quality video streams at scale, we haven't seen any issues whatsoever."*

#### Payment

As more premium services come to market, consumers are being asked to manage a large number of unique billing relationships, which can be inconvenient and is arguably a major challenge for new services: *"[Managing multiple subscriptions] is a barrier to entry, I have five to ten services that I am paying for. My number gets destroyed twice a year and I have to correct all of my logins. The big platforms such as Amazon are the master aggregators who add credit cards."*

Platforms that can aggregate services effectively and can offer consumers a secure, convenient and frictionless payment experience are well placed to succeed. Amazon's ability to help attract paying users, for example, is widely acknowledged: *"As soon as we put our service on Amazon, we saw user acquisitions spike. Given the economics of building a business, going to a place like Amazon is just an easier and more efficient way to acquire users."*

The future may not belong solely to Amazon, however, with traditional aggregators such as cable providers, as well as mobile operators, also well placed to attract subscribers to a range of services. Going further, executives identified a demand for billing services that do not rely on users having a credit card.

#### Regulation

Piracy is a concern for all providers of premium video services, but it is seen as less of an issue in the US than in other regions. While US executives are not complacent

“We need a universal payment system that users don't need a credit card for, that allows for different payment mechanisms.”

<sup>1</sup> Recode: [You can watch Netflix on any screen you want, but you're probably watching it on a TV](#) (2018)

about the problem, and need to help tackle it, there is an expectation from millions of consumers that premium video content is worth paying for, as evidenced by the success of Netflix.

A more pertinent issue for some executives is around net neutrality, and whether cable operators or broadband providers are able to deliver favored services at a higher quality than others. Though the issue has been discussed for a decade or more, executives are still unclear how and if it could impact their businesses: *"We think it could - we are unsure how. One of the largest business lines is based around YouTube - and YouTube is the largest share of data, and if networks start to throttle then it is worrying."*

Other executives are emphatic that they do not share wider industry concerns about the possible erosion of net neutrality, amid the other challenges facing premium OTT publishers: *"My personal view is that net neutrality is a non-issue. It is at the bottom of my list of things to worry about."*

## CONSUMER DEMAND

Executives recognize that the proliferation of OTT services has increased the overall demand for content, but that the fragmentation of the content distribution ecosystem can be a problem for consumers: *"It is incredibly frustrating. Even if you are aware that content is going to be available, why is it available on this platform and not on that platform. Why is it available on this service not on that service? Consumers are tolerating that because there is no other way to get it."*

A key emerging trend is the growth in live streaming of content: OTT content is not simply on-demand but also, increasingly, includes linear channels and live events. Publishers are adapting to this by creating new opportunities for viewers to engage around long-form live content: *"Live streaming is not a fad. We've been doing a lot of live stream marathons, mostly on Twitch. People who have seen a show many times will watch again in a live environment if they can chat and engage with live viewers. The numbers are meaningful."*

While Netflix has established itself as an ad-free subscription business, advertising is an increasingly important source of revenue for other OTT publishers. But some question whether consumers will tolerate heavy ad loads in their streamed content, and whether new models – not based on TV ad loads – will emerge: *"Consumers are becoming aggravated with ads and prefer a cleaner experience."*

Another key question is around the ability of niche OTT publishers to compete with generalist services, such as Netflix, Hulu or Amazon. Executives feel that there is room for services focused around a passion, hobby or specialism, alongside the bigger players, provided that consumers do not have to manage too many separate subscriptions: *"Our view is that you're going to want to have one of the big offerings, just because there's a tremendous amount of content you can get at a low cost and it can cover your everyday needs. But you might also want to dig deeper or be part of a community."*

“The level of difficulty in moving to another platform [from YouTube] is a lot higher than we expected it to be.”



## OTT BUILDING BLOCKS

Executives noted that the landscape for video services is increasingly complex, with multiple platforms and devices able to deliver content to consumers. Publishers who want to make their content available across all of these platforms face challenges around monetization, authentication and customization. They must also identify which platforms to prioritize: *"You've got layers upon layers of platforms. There will be so many different ways to get to the viewer. There will be so many different providers for different viewers. Our strategy is to be in all places, we want to make sure we are on a winning platform."*

However, executives identified challenges in their ability to show content across all channels and platforms, due to rights issues. In addition, re-versioning the service for multiple platforms remains a technical challenge, as does managing subscriptions and consumer access across that ecosystem: *"We chose to distribute on multiple platforms, and each has a separate way to monetize video. We couldn't cross-authenticate."*

Publishers are still unsure as to how to work with third-party social platforms such as YouTube and Facebook. Such services can help raise awareness of content and drive traffic, but there are risks for a premium publisher in being too reliant on them: *"The trust that people have in YouTube and Facebook has really eroded – and that is much more of an issue than it was. If we are on those platforms will we continue to be trusted?"*

Even if a publisher is able to acquire and package content successfully, significant hurdles still remain. Chief among them is investment in effective marketing and promotion, which is neither cheap nor easy: *"In an increasingly complex OTT landscape, going it alone or promoting a standalone service requires skills or investments. You need to spend a lot to tell consumers what you are and what you provide. You have to inform users all the time why they are coming back to the app."*

“We will see a shift towards people wanting to pay for the right kind of content experience.”

## COMPETITIVE DYNAMICS

Executives noted that some of the companies that invested in platforms in the last few years have struggled to compete, with brands either shutting down or pivoting to become streaming services on other platforms: *"There was a big tide of new entrants when everybody had the idea for building an SVOD service. We've gone through a wave where some have played out and been successful. Many have been eliminated."*

We are now seeing greater consolidation in the premium OTT market, with further mergers and acquisitions expected, as the incumbents - whether Netflix or Hulu or CBS All Access – strengthen their position. However, executives still see opportunities for new smaller services to be successful, if they can complement the offerings of the bigger players: *"The SVOD market will have a lot of gaps, as the big guys will not cover everything. There will be mixed channels like Shout Factory who can build in a lot of gaps, analogous to the smaller TV channels like DIY or Al Jazeera."*

Another ongoing trend in the US SVOD market is the move to create direct-to-consumer offerings. Executives keen to seize back the customer relationship from a third-party platform are eager to build direct services, but a major challenge lies in building sufficient scale and sustainability without the support of an aggregator: *"You've got the big ones, like Crunchyroll and WWE, then you've got a lot that are*

emerging that are seeing users in the low 100,000s that are still trying to work out the scale they can achieve.”

In recent years, the pay-TV industry in the US has seen the primacy of its high-cost premium bundles challenged by the rise of OTT services. It seems ironic, then, that a key trend in the premium SVOD market is a move towards new forms of bundling and aggregation. For niche services looking to scale, bundling could be critical: *“There is definitely an appetite for bundling and repackaging niche content – as opposed to only having super fans come to your service. People who wouldn’t be willing to pay for it a la carte will pay for it in a bundle – which is good for subscription economics.”*

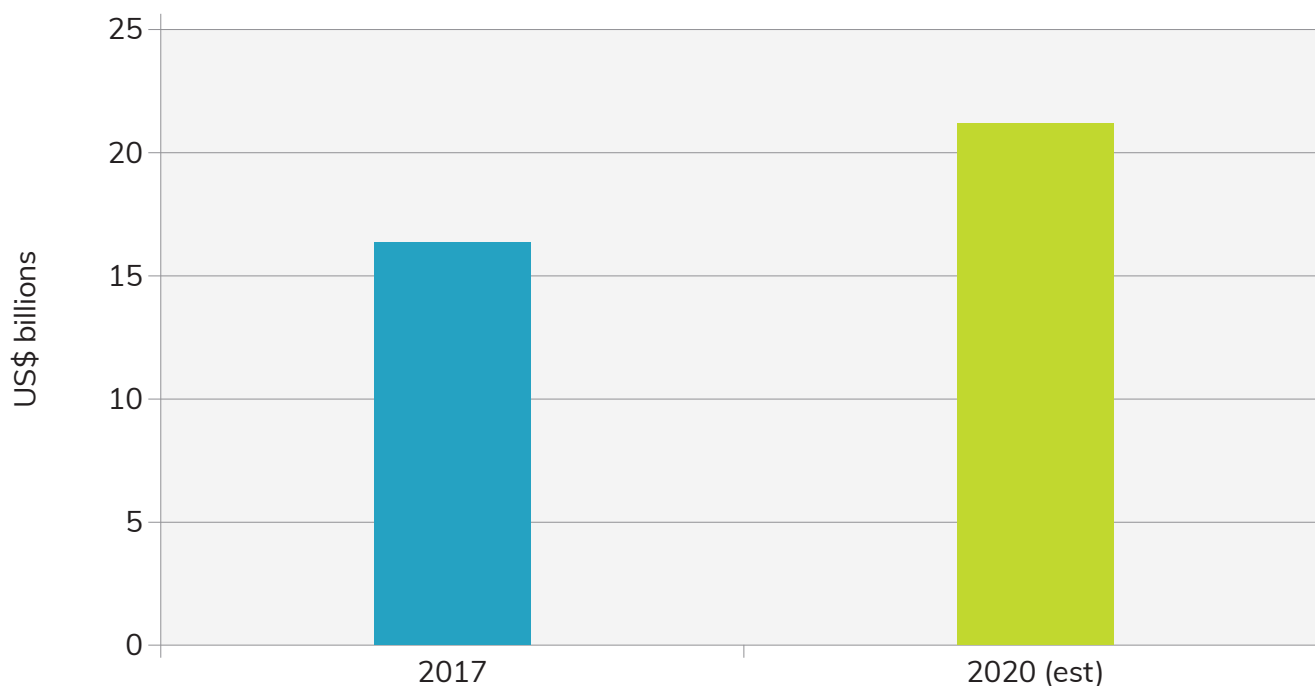
Another feature associated with the traditional TV industry will also be central to the evolution of the OTT video market: linear channels. SVOD providers are offering linear channels in front of their paywalls as part of the discovery mechanism, but others see the linear experience itself evolving: *“OTT linear is going to make a very big appearance towards the end of 2018. When you talk about disruption, it is going to happen via a linear channel. There is going to be innovation to help elevate linear channels – it’s going to be a new type of linear experience.”*

“Bundling will really evolve and will be a key trend for the next few years.”

## MARKET FORECAST

Industry participants believe that the market will grow strongly in the US through to 2020, from \$16.4 billion in 2017 to over \$21 billion by 2020. Netflix, Amazon and Hulu will dominate in terms of subscriber numbers, but there will be growth from direct-to-consumer offerings from the likes of Disney and HBO, as well as specialist services such as Crunchyroll and WWE. With new players acquiring rights in the space, live sports delivered via OTT could also drive further growth in premium OTT revenues by 2020.

**Exhibit 5** USA, expected value of the premium OTT market in 2020 (US\$)



Source: MTM analysis, estimates from industry executives

## 5 LATIN AMERICA

Our research focused primarily on the prospects for premium OTT services – subscription video services, delivering to connected devices – in the three largest markets within Latin America: Argentina, Brazil and Mexico, though many of the findings would apply more widely across the region.

### MARKET ENABLERS

#### Broadband and devices

The importance of having reliable and affordable broadband access is well understood as a driver of OTT adoption in Latin America, as elsewhere. Broadband services in the region are improving – the minimum offer is 5Mbps, whereas three years ago it was 1-2Mbps – and operators are now focused on using their infrastructure to deliver internet services: *“OTT services are really powered by the broadband connection. Customers start buying better broadband for a lower price, then when they have more bandwidth they can have better OTT services and they start migrating.”*

However, while there has been significant investment in new networks across Latin America in the last couple of years, coverage overall remains patchy outside of populous cities. In Mexico, for example, the base of customers with sufficient bandwidth to support a premium OTT service has been growing, but is not where publishers hoped or expected it to be, even as consumers are showing more interest in IP-delivered content.

A challenge for OTT publishers in the region is that consumers tend to blame them for a poor internet connection even when it is a wider network issue. This creates customer relationship issues, impacting retention for publishers, for example, even if the pressure should be on the network providers: *“Having an OTT service means you are seen as being responsible for some things that you have no control over. In Mexico and Latin America, it’s still a big issue.”*

Consumers in the region are still using phones as the primary device to access OTT content. Smart TVs are not widely sold, and although the 2018 World Cup may have accelerated their adoption, for now HD TVs still dominate: *“When the soccer World Cup happens, everyone buys a new TV.”*

#### Payment

As customers migrate to OTT services, they move to new forms of payment. Electronic payment methods such as credit card or debit card are less popular in Latin America than in Western markets, so there is a need to build a direct relationship with the customer. This tends to favor providers that already have a relationship with consumers, including mobile operators and broadband providers.

It also explains why pre-paid services are popular in the region. In Mexico, for example, 60% of mobile phones are pre-paid. Moreover, the price of data is coming down, so for 5MB per

“Dependency on the internet is growing but the internet service is not growing at the same pace.”

month instead of paying \$50 consumers are now paying \$15, creating an opportunity for more users to have access to services that rely on data. This is boosted in turn by the growth in the number of ways consumers can pay for data and services and, as a result, the barriers to OTT adoption are coming down: *“Pre-paid cards for Netflix are happening, PayPal is growing, and people are relying more on payment services than they used to. Getting users to pay is still a challenge but the market is growing.”*

## Regulation

The absence of effective regulation creates challenges for pay-TV operators and content providers across Latin America. The lack of copyright protection is encouraging piracy, with Kodi boxes widely available, although Roku boxes cannot be sold in Mexico. Some operators are even re-selling pirated content via brick and mortar shops.

In response, a consortium of content providers and pay-TV operators is seeking to prosecute illegal resellers, while also developing other initiatives against piracy, such as a major TV campaign to explain to customers that piracy is a crime. The challenge for legal providers is compounded by improvements in the quality of the pirates' services: *“Piracy used to be of low quality, but what we're seeing now is that the quality and UX have improved. Piracy is getting better.”*

In Brazil, regulation that restricts the ability of pay-TV operators to offer exclusive content does not apply to OTT providers, thus creating an opportunity for the latter to differentiate their service based on content: *“Unlike OTT providers, pay-TV providers in Brazil cannot offer exclusive content due to regulation.”*

“In some cases, piracy operators are the second largest operator in the country, and regulation protects them.”

## CONSUMER DEMAND

Across the region there is a strong and persistent interest from consumers in local news and content, which provides an opportunity in theory for local OTT services to compete successfully with global players such as Netflix. For example, Argentina's Grupo Telecom launched Flow, its TV Everywhere service, in November 2016 and expected to acquire 70,000 users by the end of 2017. However, by mid-2018 they exceeded their targets ten fold and acquired more than 700,000 OTT subscribers.

However, content is not the only differentiator. Netflix's entry into the Latin American market provided a template for others to follow in terms of how to provide customers with a better UI, richer access to devices, clear billing and great customer service: *“Netflix got the customer interaction right. They made that transition well in being able to interact with customers over a digital medium.”*

Much of the growth in the premium video market in Latin America now comes from hybrid consumers. Many people that have a pay-TV service also have one or two OTT subscriptions as well: *“You maybe pay \$50-\$100 for your pay-TV and then you have \$15 for one OTT service and \$10 for another. That end of the market is growing, but there will be a limit to how many new consumers they can capture.”*

Targeting young consumers, who typically don't have a pay-TV subscription, is another priority for pay-TV providers and OTT publishers, though this requires a change of mindset to cater for different expectations: *“We look at how we can*

*build new OTT services for people who aren't pay-TV targets. It has a lot to do with negotiations with channels, and how channels are grouped into plans. The new generation of users don't understand these bundles. We need to provide them with the ability to subscribe to content they like in the way they like."*

## OTT BUILDING BLOCKS

The growth of OTT is creating new paradigms for participants to deal with. Traditional broadcasters and pay-TV platforms are having to improve their platforms and transform their companies internally to deal with the growing popularity of IP-delivered video content. It is still a work in progress, however: *"We are all still learning how to make a business out of the new OTT way of delivering. There has to be a new relationship with content owners, integrators, operators, delivery companies and the consumer. We will have to create new way to interact between all of us."*

Keeping up with technological developments is essential, and providers need to be as efficient as possible on using the bandwidth of their network, and developing multicast, low latency streaming. The aim, however, is not to replicate traditional TV using internet technology, but to build a new type of service that is focused around the needs of the user: *"We want to make our experience as user-centric as possible. That's the motto for our new company. It seems basic but it's not that easy. We're working to transform the company with that in mind."*

However, alongside building the new infrastructure, OTT service providers face challenges around acquiring content. It is still hard to acquire rights across multiple devices, and content providers place restrictions that some providers regard as unnecessarily onerous: *"It's an industry-wide problem. We've been fighting over the last 10 years over who pays for the additional cost of OTT."*

Large international players are also acquiring local content to complement their international programming in order to get the optimal mix for consumers. Likewise, large regional players are seeking a similar balance: *"Turner is investing a lot of money in local content as is Netflix in Mexico and Colombia. Claro is doing the same, but there is a mix of international content and local together, as opposed to local content alone."*

## COMPETITIVE DYNAMICS

The market for OTT services in Latin America has seen significant investment in the last two years, from pay-TV operators such as Telefonica, Claro and Grupo Telecom, and also from international broadcasters who are keen to engage a new generation of audiences in the region: *"Everyone is trying to run OTT services whether VOD or linear. Fox just launched a new service too but with linear channels. Crackle is a big player now – Sony has done an amazing job – everyone is trying to look forward by rolling out OTT services."*

One barrier to further growth in the region is whether consumers are willing to manage subscriptions to three to five different standalone services. Will they be happy to deal with separate services in order to access the optimal mix of a local content provider, an international provider such as Netflix, and niche services that cater to users' passions. Some question whether the current shift to operator 'skinny bundles' is the long-term solution to serving the next generation of consumers.

“Local content is good to have but you can't run an OTT service on local content alone.”



They see the future instead in new types of aggregation that bundle a range of content services in with the ability to access them across multiple devices: *“One operator who can bring that all together and provide a convenient price and an exceptional experience – that’s our strength, as we’re not only a pay-TV operator but also a mobile and broadband service provider. Our advantage is therefore that we are already in the homes and pockets of our users.”*

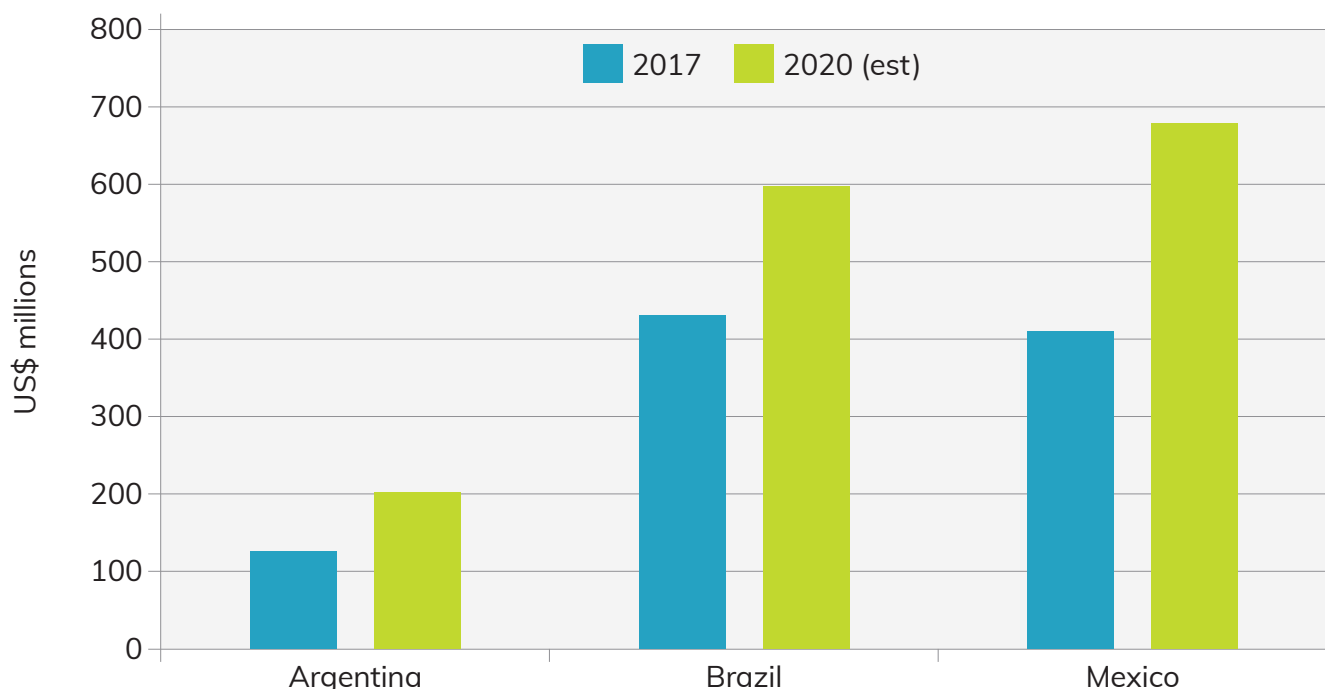
The competition for premium video service providers has changed too. Consumers in Latin America, as elsewhere, have a very long list of things that they can do in their spare time, sometimes even at the same time with the same device. Those providing premium services will increasingly aggregate services, including premium OTT video, in order to ensure they can compete for attention: *“As entertainment providers we have to be ready to fight and to merge all of these new ways of getting into the consumer’s mind to be able to grab a piece of the time that is available. You have to be relevant against all forms of entertainment. Netflix said their competition is sleeping. It’s not another company, sleeping is our competition.”*

“We have to be ready to fight and to merge all of these new ways of getting into the consumer’s mind to be able to grab a piece of the time that is available.”

## MARKET FORECASTS

Industry participants believe that the market will grow strongly across the region through to 2020, from around \$127 million in 2017 to \$205 million in Argentina, from \$432 million to \$596 million in Brazil, and from \$410 million to \$678 million in Mexico in the period. Growth will be driven primarily by mass-market services, with Netflix widely expected to remain the dominant premium OTT provider, despite strong recent growth from Amazon. Local players such as Claro who can offer popular local content will also see further growth in revenue.

**Exhibit 6** Latin America, expected value of the premium OTT market in 2020 (US\$)



Source: MTM analysis, estimates from industry executives

## 6 ASIA PACIFIC

Our research focused primarily on three markets in the Asia Pacific region – Australia, Indonesia and Thailand – with widely varying characteristics. While it is difficult to generalize about trends across a region as diverse as Asia Pacific, many findings from these three markets will also be relevant to other countries.

### MARKET ENABLERS

#### Broadband and devices

Broadband penetration and quality, identified as a barrier to OTT market growth in our last study, has improved across the region. In Thailand, for example, the launch of fibre services in the last two years has led to a price war, resulting in cheaper and faster broadband. Internet coverage is also getting better in Indonesia, though there are still challenges around stability and a consistent service experience. Broadband coverage in Australia, while improving, remains sketchy, especially in rural areas – a challenge in many markets.

Consumers across the region are also benefitting from the availability of cheaper smartphones, creating a greater connected audience for premium video services: *“Before, there was a duopoly with Samsung and Apple, but now we see the Chinese players in the market strongly with good cheap handsets (under \$200) – and access has improved.”*

Across the region, there have been developments in the last two years in the number and type of payment solutions available to viewers wishing to access premium OTT services. This has helped the market to grow, as consumers embrace convenient solutions.

Carrier billing, where consumers pay via their mobile operator, is becoming an increasingly important payment option in the region. Telcos (and pay-TV providers) are well placed to offer this service, given their existing billing mechanisms and strong retail footprint.

There is competition from other payment solution providers too, including banks such as SBC and KBank who have now added e-shop capabilities into their apps, which consumers know and trust. Most popular services offer a variety of payment mechanisms, including iTunes, credit card, PayPal, ATM bank transfers, payment through convenience stores and scratch cards, while LinePay is growing in importance across the region.

#### Regulation

Piracy is still an issue for every OTT player in the region, with many consumers still turning first to pirate sites to watch content such as sport or US movies and TV shows. Moreover, regulation in many markets is still not helpful for rights owners. In Thailand, for example, the shutdown process for copyright holders takes 3–6 months to enforce. Even then, it is only a temporary injunction, not a permanent shutdown, and most of the illegal content soon reappears.

“Carrier billing is especially popular in Thailand and Indonesia, and is often used for bundles combining data and services.”

There are signs of improvement, however, with content rights owners making content available to distributors sooner, helping to counter the appeal of piracy. Services such as Viu in Thailand now offer popular local or regional shows – such as Korean dramas – within two hours of their broadcast: *“The situation is improving, it’s going in the right direction, the audience is happy to sign up for these OTT services if they have a series they really want to watch.”*

## CONSUMER DEMAND

Consumer awareness of, and demand for, OTT services in the region continues to grow, following high-profile market entries by international providers such as Netflix, iFlix and Hooq. However, some question the mass appeal of Netflix, with its reliance on US content, in markets such as Thailand: *“They have a good number of subscribers but it’s not huge. There is a limited interest in terms of content offer. The local content is super strong here.”*

The OTT business model is still evolving across the Asia Pacific region with many players trying different models – including subscription, pay-per-view, and ad-funded – to attract different consumer segments. Many consumers also rely on getting a service bundled for free into their broadband, mobile or pay-TV package, or as part of a trial.

Though consumer willingness to pay is generally increasing, thanks to improved availability of services, there is still a challenge around educating the market that content has to be paid for. And even if consumers are willing to pay for a premium OTT service, they remain price sensitive, especially in markets such as Indonesia: *“The comparison is always to the cost of a pirated DVD, which is still between US\$2 and US\$3.”*

## OTT BUILDING BLOCKS

For OTT service providers seeking to build a compelling service, acquiring desirable and unique content in order to differentiate is a major issue: *“The main challenge is around content rights. It is difficult to create a unique business model for OTT SVOD because of windowing periods and the rights for different platforms.”*

One way for OTT services to differentiate is to super-serve local audiences in markets such as Thailand, through acquiring or creating local content, or re-versioning international content: *“For our content we try to ensure we are not the same as international brands. Our success factor is based on high levels of localization. We apply Thai dubbing or Thai subtitles to 100% of the content in our system.”*

Effective marketing of new services is another challenge facing OTT services. Another route to consumers is through a focus on partnerships, developing a B2B2C strategy: *“We don’t have cash to buy billboards, but we partner with Samsung and telcos to give our service for free to their consumers.”*

## COMPETITIVE DYNAMICS

The entry of new legal OTT services in the region, especially from well-funded international providers, is widely seen as a positive development in growing the

“AVOD services are strong here so the premium OTT providers need to find something different to convince the user to sign up to a subscription model.”

wider subscription market: “Netflix’s launch in Thailand has been good for the market because they are spending money and educating consumers.”

Ad-funded (AVOD) services – notably YouTube, Facebook and LineTV – are hugely popular across the region and, after pirate sites, represent the biggest competition for SVOD services in terms of attracting audiences.

The market across the region is currently focused on general content offerings, rather than niche or specialist OTT services. Executives believe that such smaller services will struggle in the near term.

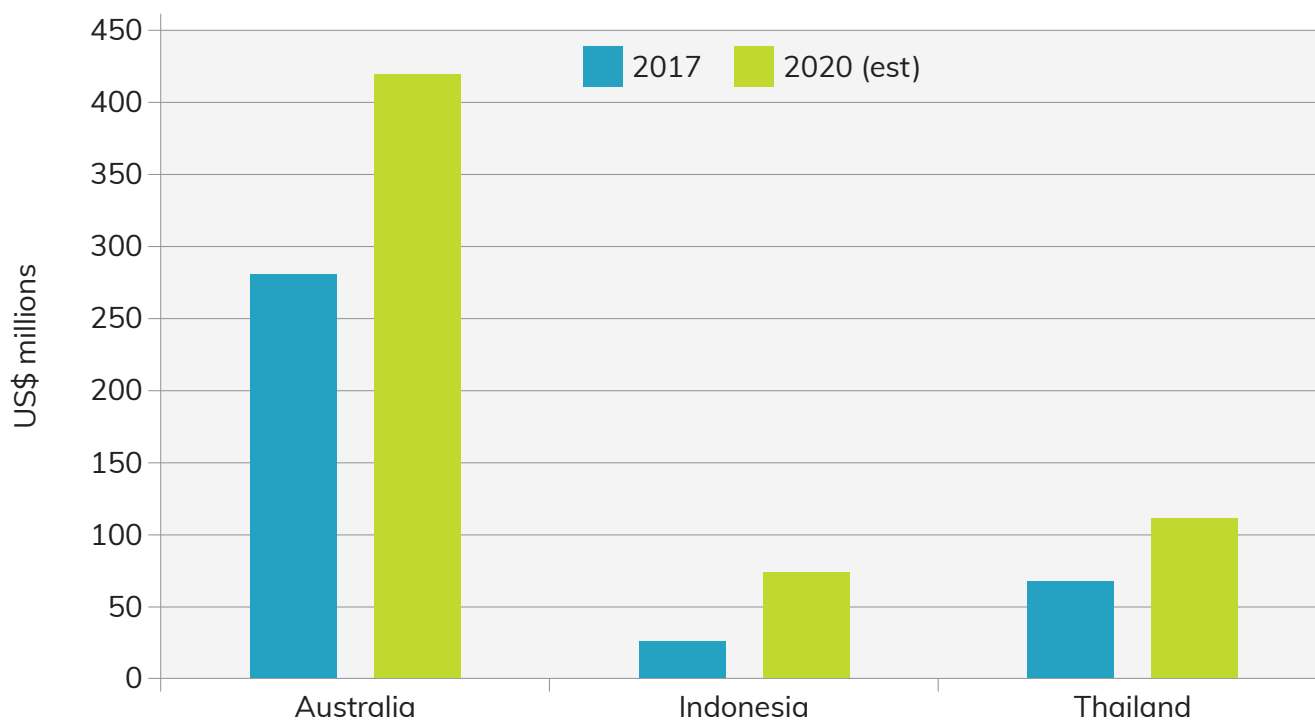
However, one growth opportunity lies in live content delivered via OTT: “Live streaming is growing in importance, and not just sports - we also have done live streaming for a Korean concert. At the right price, the market for live will grow. It could be something we offer every week, eventually.”

“Our success factor is based on high levels of localization.”

## MARKET FORECASTS

Despite the challenges, industry participants believe that the market will grow strongly through to 2020, from around \$280m in 2017 to \$420m in Australia, from \$26mn to \$72m in Indonesia, and from \$66m to \$108m in Thailand in the period. Growth will be driven primarily by mass-market services, but local and regional services will capture a significant share of the market. Netflix is widely expected to remain the dominant premium OTT provider in Australia, but executives expect local players to dominate in Indonesia and Thailand.

**Exhibit 7** Asia Pacific, expected value of the premium OTT market in 2020 (US\$)



Source: MTM analysis, estimates from industry executives

## ABOUT MTM

MTM is an international research and strategy consulting firm, specializing in media, technology and advertising. MTM helps clients around the world understand and respond to digitally-driven change, providing award-winning consumer research, industry analysis, strategic advice, and support for new ventures, business development, and organizational change and transformation. For more information, please visit [www.mtmlondon.com](http://www.mtmlondon.com)

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## ACKNOWLEDGEMENTS

This paper was written by MTM based on a series of interviews with industry executives from premium OTT services in each region. MTM and Vindicia would like to thank all those who contributed to the research for their input and insights.

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

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