

Emerging online video markets: *Drivers of and opportunities for paid-for services*

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Macroeconomic outlook

- Emerging online video markets include high-growth countries and territories across CEE, MEA, APAC and LATAM regions.
- Over 6bn people live in these regions, amounting to 89% of the world population in 2013.
- World economy (real GDP) growth is being driven by emerging markets: According to IHS Global Insight, APAC is expected to grow by an annual average of 7.96% between 2013 and 2018, BRIC countries - 9.61%, while China alone is expected to grow 11.33%. By contrast, total world nominal GDP growth is expected to average at 5.98% per year over the same period.

Business perspective

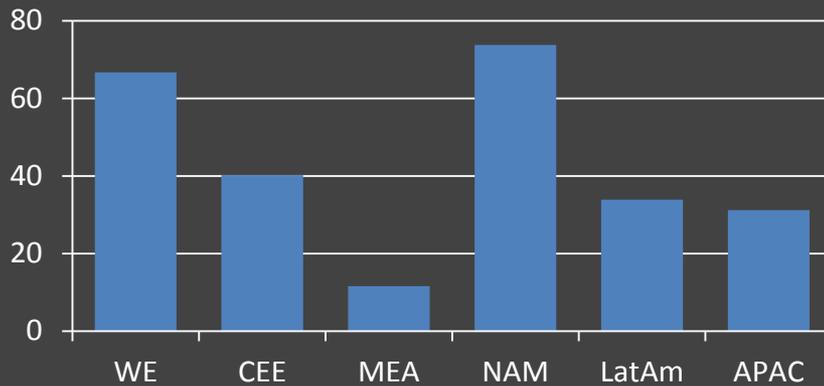
- Unsaturated markets with a limited number of established international players.
- Opportunities to experiment with different business models and content formats/types.

Infrastructure and devices:

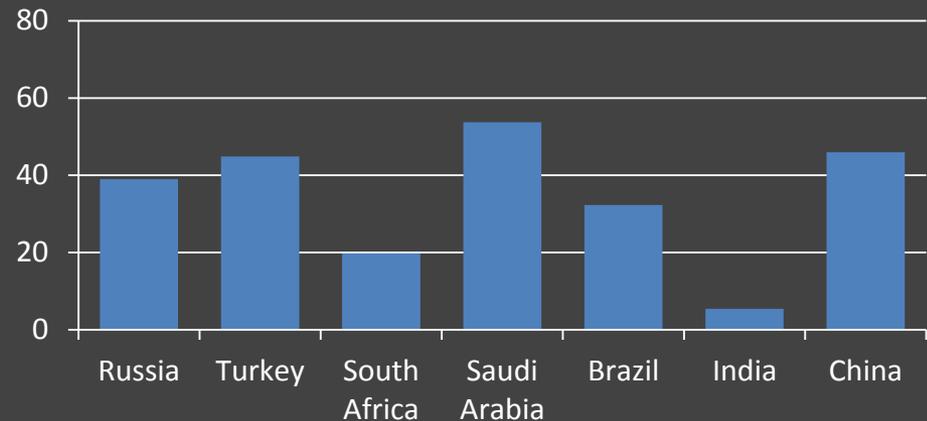
- Growing broadband penetration and usage of innovative technologies for improving broadband coverage.
- Increase in the number of connected devices – smartphones are key, but other devices including smart TVs provide new pathways to the consumer which may not present the same opportunities in established markets.

As many as 2 in 5 households in major emerging markets already have broadband

2014: Broadband household penetration by region (%)



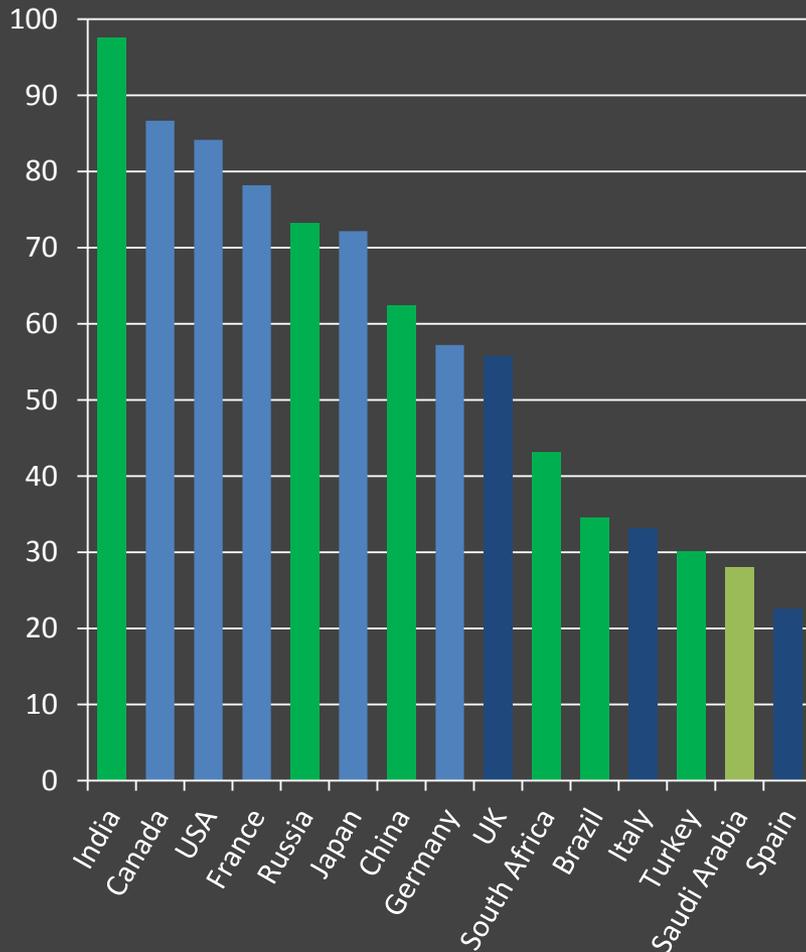
2014: Broadband household penetration by key emerging markets (%)



- Western Europe and North America are the most developed regions worldwide, with broadband penetration of households averaging over 60%.
- Major emerging markets including China, Russia, Brazil and Turkey have broadband penetration rates of as much as 40% of households.
- Broadband infrastructure in India remains a challenge for online services as only 5% of households can access internet via broadband. South Africa also remains underpenetrated, with 20% household uptake.
- MEA is a market of extremes – with very high penetration rates in the more developed markets (UAE, Qatar) and very low rates across Sub-Saharan Africa
 - Innovative mechanisms to deliver broadband to such areas which remain largely devoid of fixed-line infrastructure are being considered by companies including Facebook and Google.

Consumers in many emerging markets are already heavy users of certain forms of paid-for media

2014: Pay TV penetration* (%)

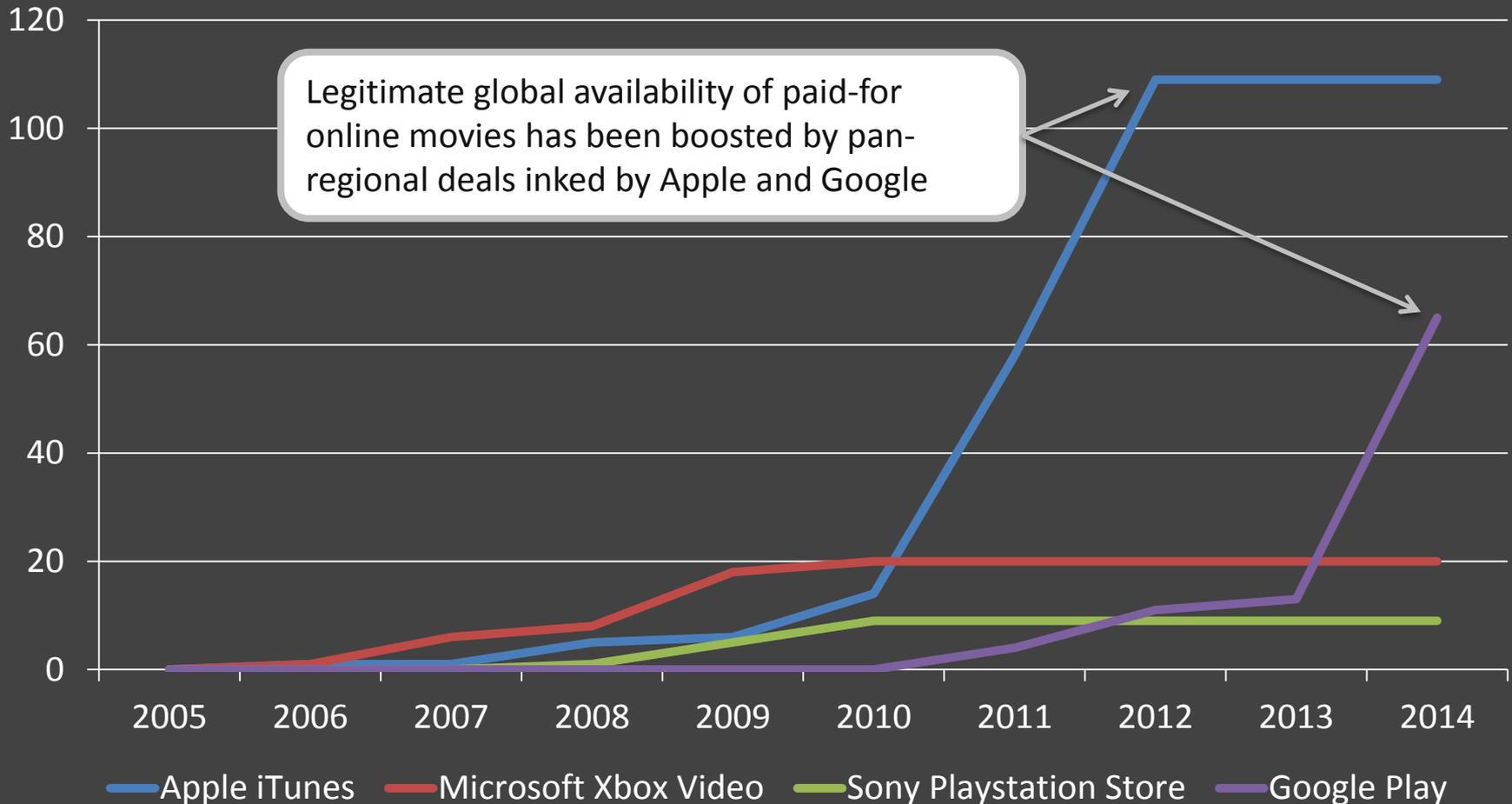


*of TV households

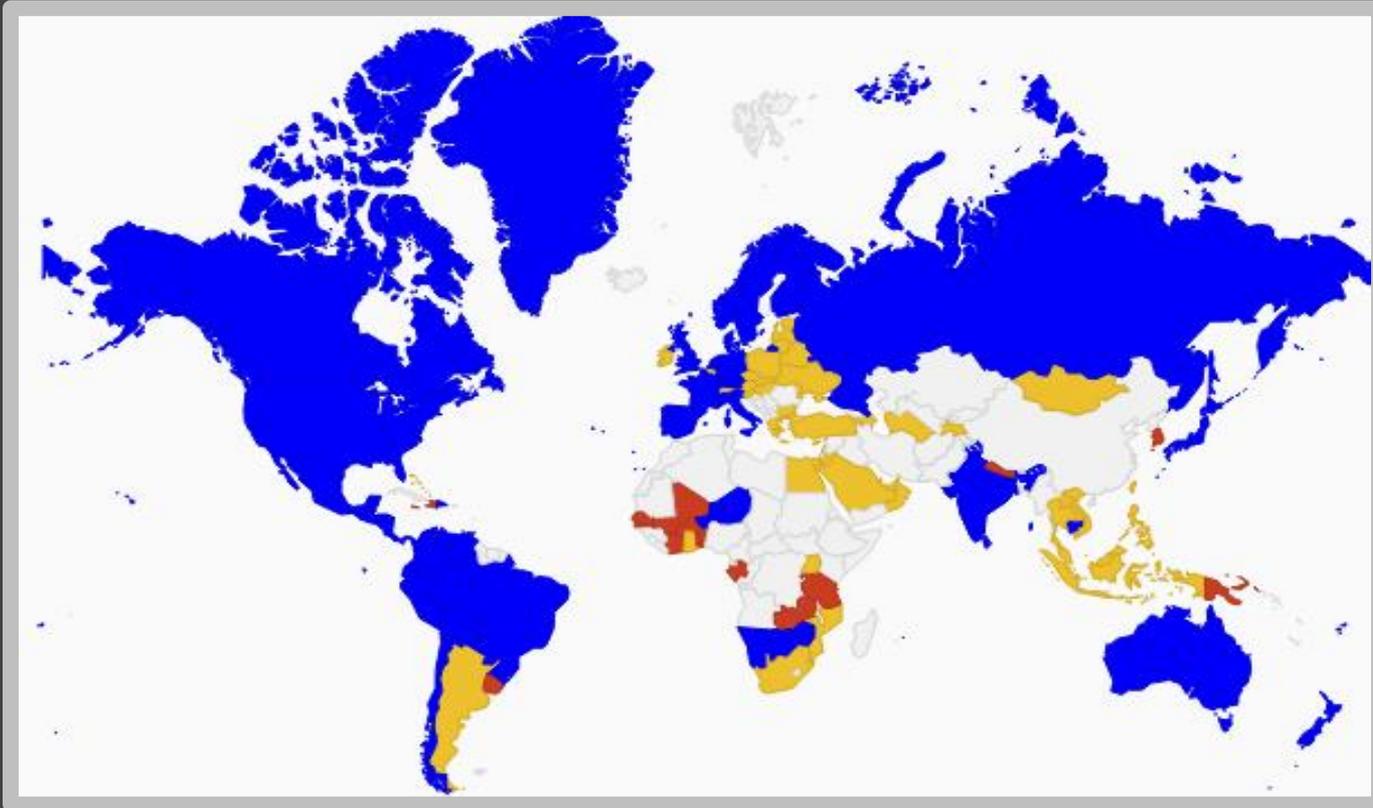
- Pay TV penetration varies considerably across both developed and emerging markets – some emerging markets have very strong pay TV penetration of TV households.
- India, Russia, China are at the level of US and WE countries in terms of uptake (if not spend) showing that many consumers in high-growth developing markets are not opposed to idea of paying for video entertainment.
- But this is not universal – low spending power means that many consumers will opt for free services. Markets including Turkey, Saudi Arabia and Brazil have lower pay TV penetration similar to that of countries in Southern Europe.

iTunes and Google Play are increasing the global coverage for transactional online video stores

Countries served by company's transactional movie offer (#)



A huge proportion of the world is now covered by either or both Google or Apple movie stores



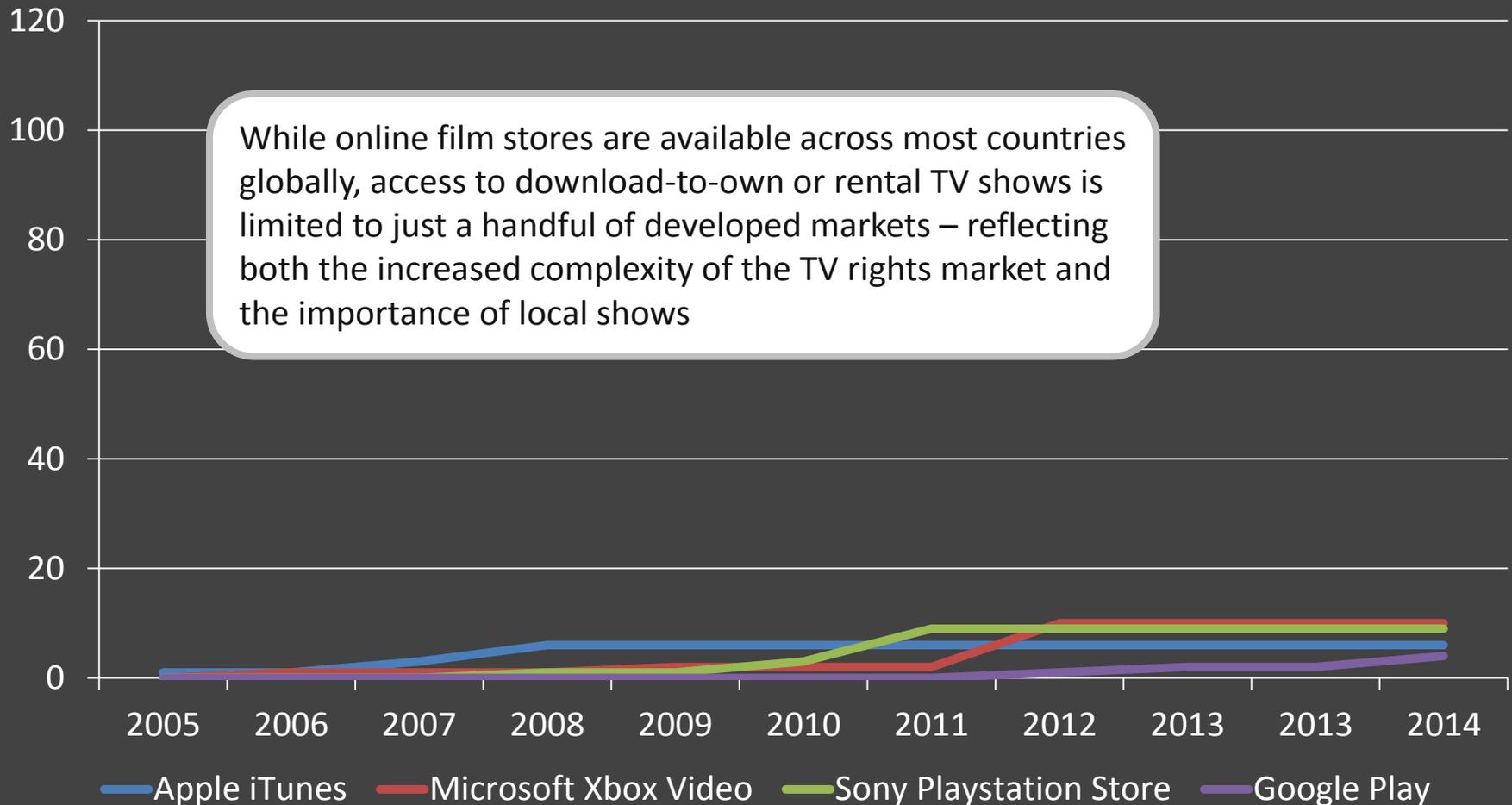
 Google Play Movies and iTunes Movies available

 Google Play Movies available

 iTunes Movies available

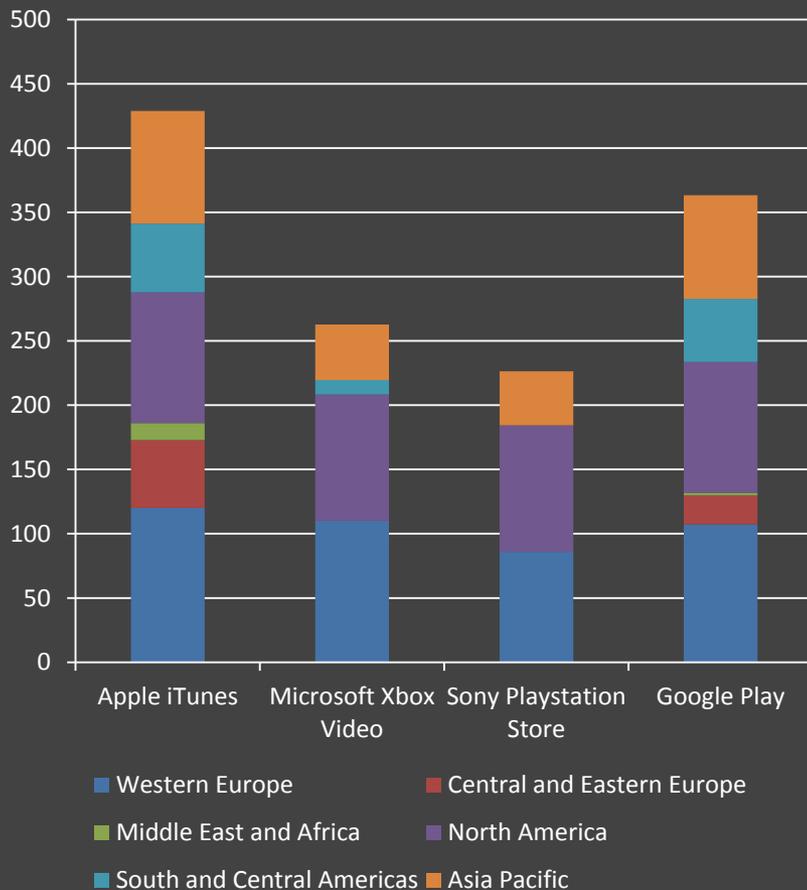
However the number of countries with transactional TV stores is still relatively small

Countries served by company's transactional TV offer (#)



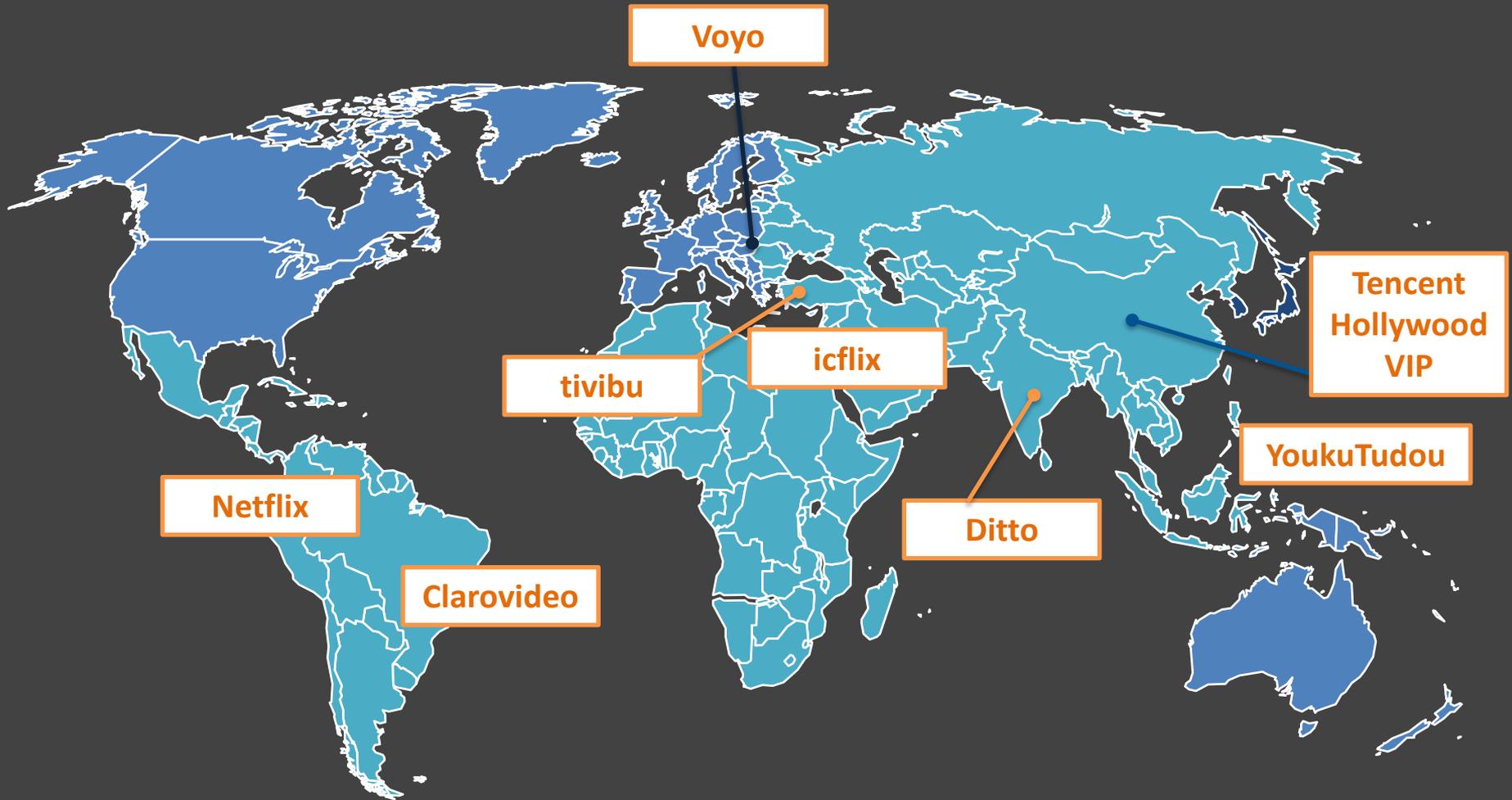
iTunes and Google are two key online video services present in all regions around the world

**Addressable market by regions
(broadband households)**



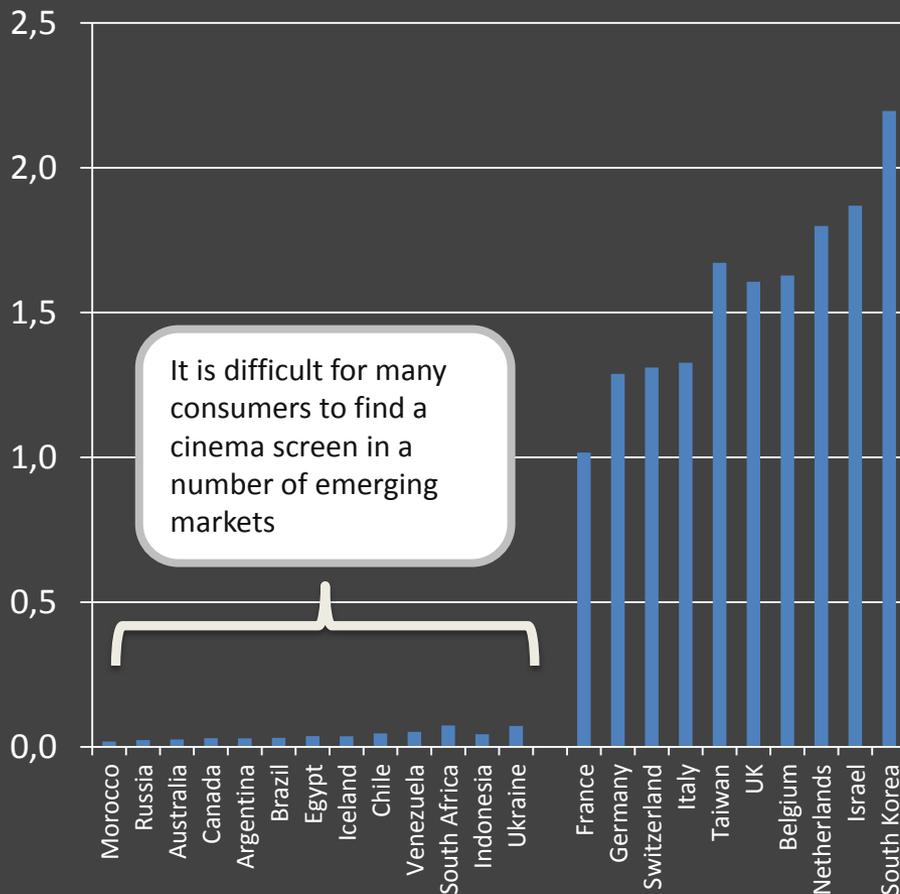
- Apple's iTunes has the widest international coverage with Movie Store is available in 109 countries.
 - TV Store however is only available in US, Canada, France, Germany, UK, and Australia.
- Microsoft Xbox Store and Sony PlayStation Store do not match Apple's extensive geographic coverage. Microsoft offers online movies in 20 countries, Sony PlayStation Store is available in 9 markets.
- Google Play, despite launching online video service only in mid 2011, is not far behind Apple, with 65 countries covered.
- Yet despite significantly wider geographical coverage, Apple iTunes' addressable market is only 18% bigger than Google Play's market.
 - Presence in EU Big-5, NAM, Russia, Australia and Japan provides coverage of almost half of the world's addressable market.
- None of the major international online video services have yet tackled the Chinese market, with local regulation a key issue.

In addition to major transactional services, developing markets are starting to see the emergence of SVoD players



In the film sector, online represents an opportunity to reach consumers who may not have cinema access

2013: Cinema screens per squared km



In many emerging online video markets with vast territories, it is a challenge for customers to find a cinema nearby – particularly compared to developed markets.

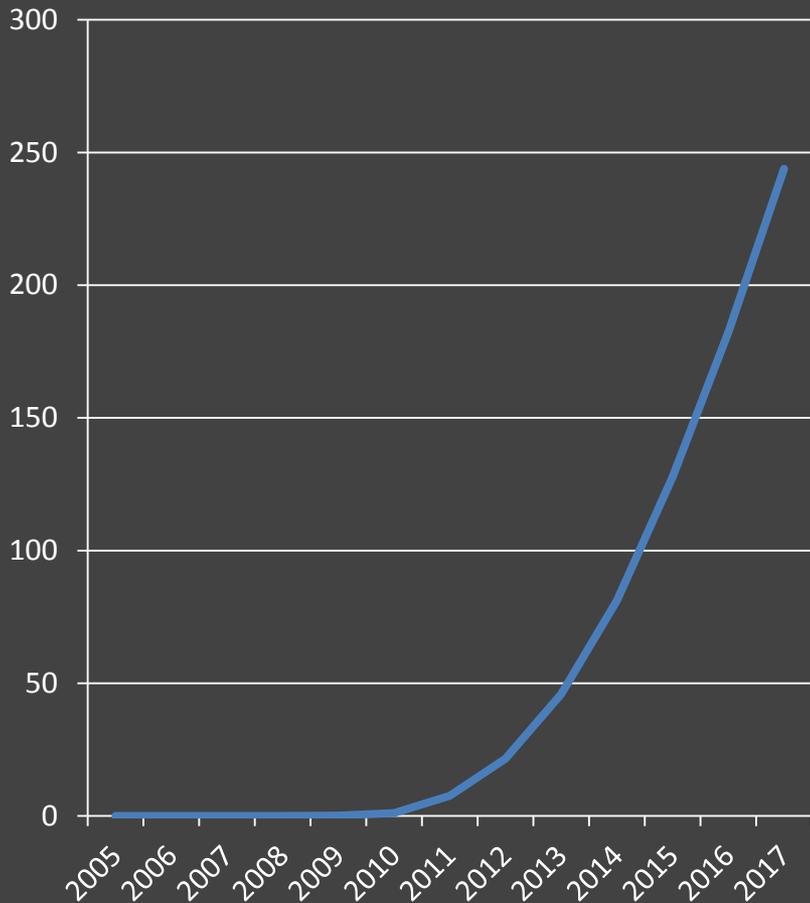
- For example in Russia there 0.02 screens per squared km in 2013 compared to almost 1.7 in the UK.

For film companies, this means that alternative routes to the consumers should be considered in such markets.

- Opportunity to target consumer-base which does not have access to cinema, with minimal cannibalisation risk downside.

Smart TVs offer an alternative route to consumers in some developing markets

Smart TVs installed base across MENA, CEE, LATAM and APAC (m)



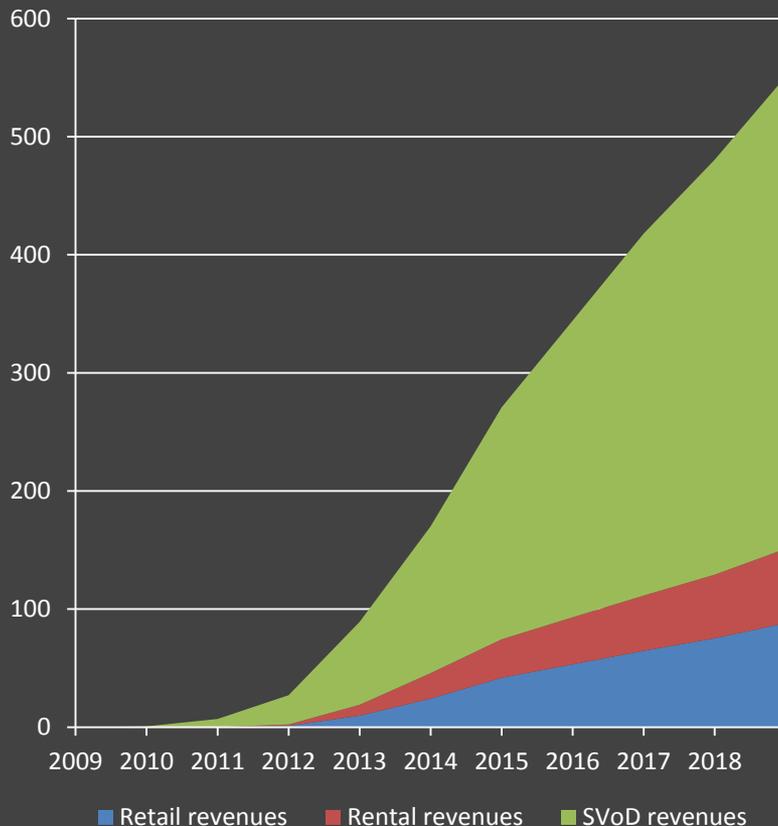
- Smart TV installed base is growing across many emerging online video markets.
- The installed based of Smart TVs across MENA, Asia Pacific, CEE and LATAM is expected to reach just short of 250m by the end of 2017.
- Given the short history of traditional commercial and pay TV in many such markets, smart TV platforms present an opportunity for content providers to reach audiences ready to pay and consume high quality video content.
- From a technical perspective, smart TVs specifications also provide high levels of content protection, allowing content providers to address the risks of piracy while still offering latest-release content.



Market focus – Central and Eastern Europe

Central and Eastern Europe's online paid-for-video market is set to double in size by 2018

Online paid-for video revenues across business models (€m)



- The online paid-for video market in the CEE region is expected to grow more three times by 2018, growing from €170m in 2013 to €550m in 2018.
- In the paid-for space, CEE region has strong international players such as iTunes and Google Play offering transactional video, as well as growth from local players operating across subscription and transactional models:
 - Voyo, Topfun, Play, Tivibu and local pay TV operators are all active across the region.

Across CEE, there are a range of services experimenting with different business models

International players: transactional services include Apple iTunes*, Google Play* offering latest release and library films.

ivi – leading Russian online video platform, offering content via different business models (AVoD, SVoD and TVoD) – primary revenue stream is advertising currently.

Voyo – Leading regional online subscription video service from TV Nova - provides access to different genres of content including movies, TV series, sport. Also offers transactional video. It was launched across 6 main territories: Czech Republic, Romania, Bulgaria, Slovenia, Slovakia and Croatia.

Topfun – one of the first online services launched in CEE (2006). It is available via subscription and transactional business models in Czech Republic and Slovakia.

Play – leading Russian paid-for online video platform with transactional and SVoD business models.

Pay-TV operators and telecom companies have also started to enter the online video space

Hrvatski Telekom – mobile TV service launched in 2011 and available to customers of T-Com and T-Mobile networks for a nominal fee of HRK 1, provides access to TV and sport content depending on the packages.

Rostelecom (Zabava) – a multimedia portal from the main Russian telecom company that gives access to movies, TV content, sport and sells books, games. For video content it mainly uses standalone SVOD business model.

Telekom Slovenije –multiscreen bundled services (SiOL TViN) offers 50 TV channels streamed to PCs, Macs, tablets and smartphones.

TTNET – IPTV and OTT service Tivibu was launched in 2010 and offers movies and TV content, claimed to be more successful as an OTT proposition, rather than IPTV.

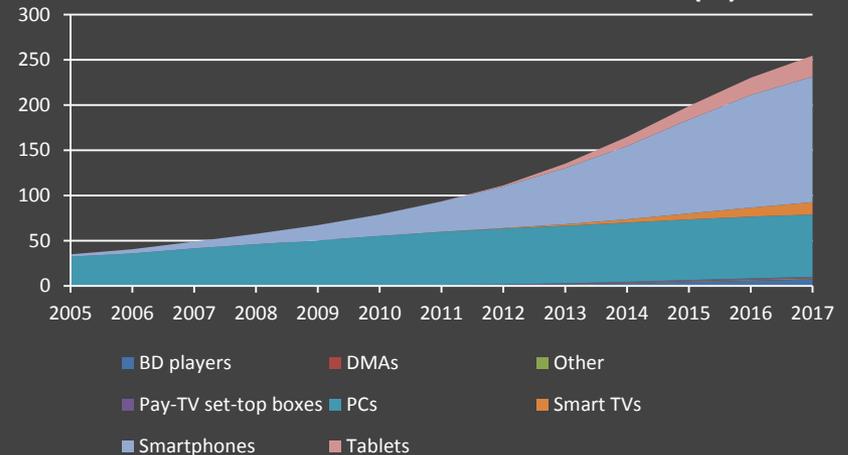


Market focus – Russia

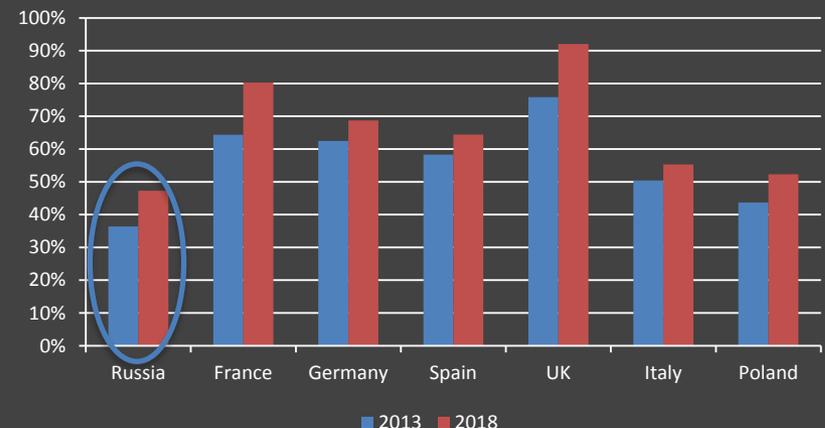
The Russian online video space is set to grow substantially over the next few years

- Rapid growth of online video segment is expected as a consequence of further growth in broadband uptake, in installed base of devices and internet usage.
 - By 2018 broadband penetration of households in Russia is expected to reach nearly 50%.
- The growth of installed base of connected devices is one of the key elements, with total connected devices expected to double over the next few years, reaching over 250m by the end of 2017.
- In addition, the Russian internet population is the largest of any market in Europe, with more than 65m people using the internet each month, more than 50% of the population (March 2013, TNS).
 - Russia passed Germany's user base in 2012 to become the largest internet market in Europe.

Russia: installed base of connected devices (m)

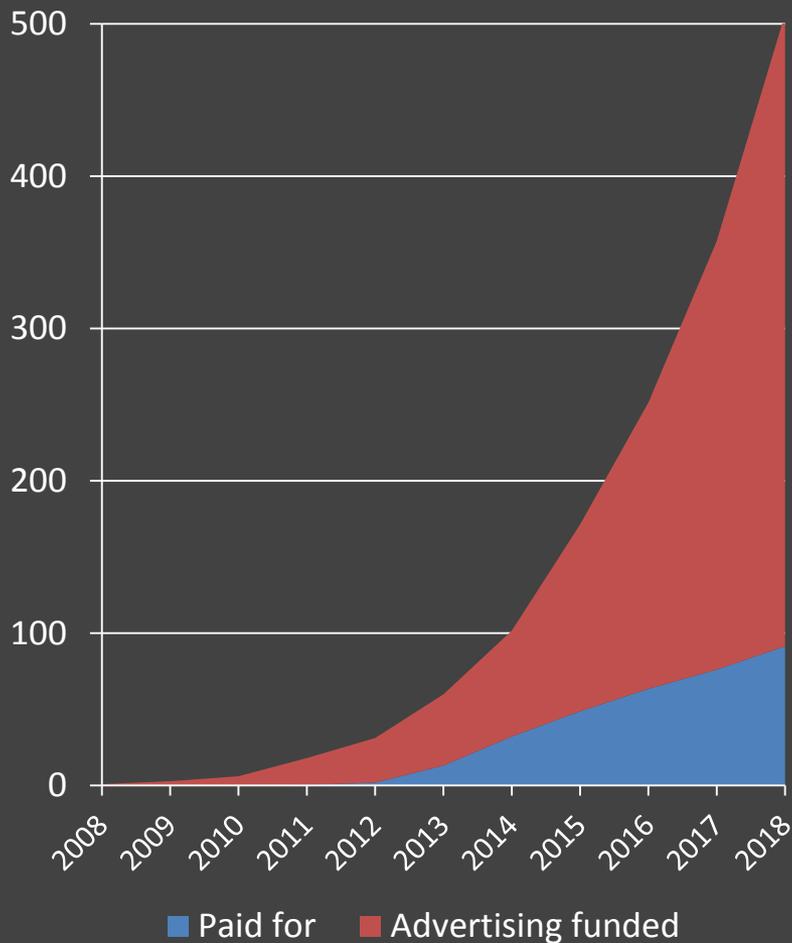


Broadband penetration of households (%)



The free-to-view Russian online video market is growing even more quickly

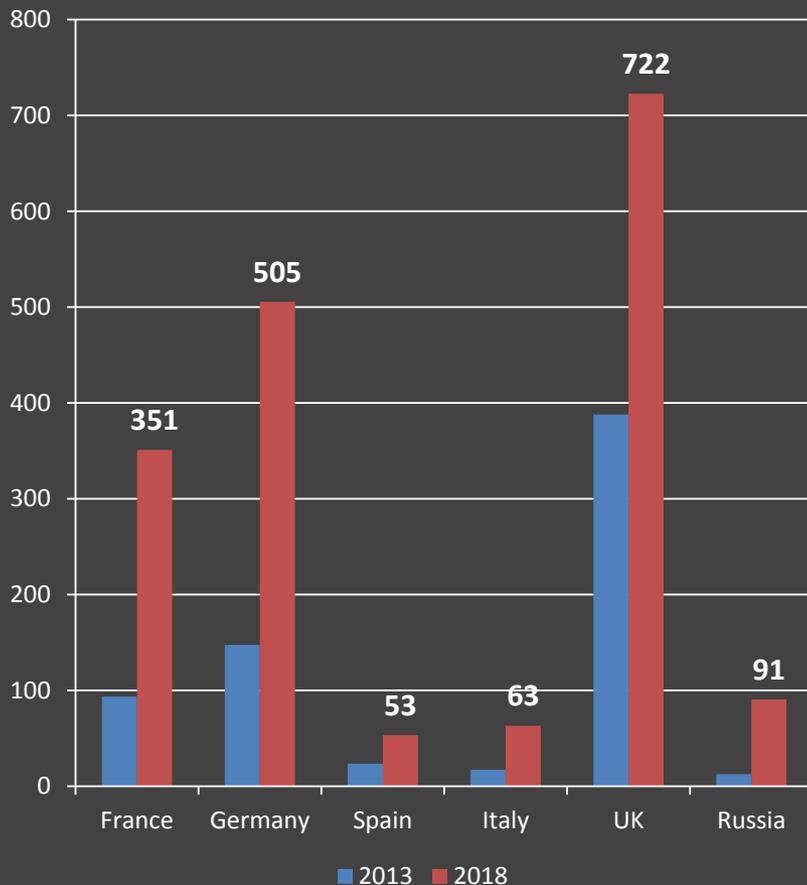
Russia: online video market (€m)



- The Russian online video space has seen rapid expansion in the years since 2010. Historically, it was a market dominated by user-generated platforms and pirate content, however the situation has started to change.
- Different business models have now started to take off, including transactional, SVoD, and ad-funded mechanisms. The free-to-view (ad-funded) model is expanding at the most rapid pace. Online video market is expected to reach €500m in 2018.
- The outlook for the Russian video market compared to other European markets remains positive for the next few years. New online anti-piracy legislation and infrastructure developments (including broadband and connected devices) will push further development of the online video space.
- In addition, the expansion of video catalogues from legal online video platforms and new experiments with business models will help expand paid for segment.

The Russian online paid-for video market is expected to be one the largest in Europe within a few years

Online paid-for video market across the countries (€m)



- The Russian online paid-for video market is expected to be among the largest online video markets in Europe (including UK, France, Germany, Spain, Italy).
- By 2018 the online paid for movie segment is expected to reach €90m and be almost twice as big as that of Spain and Italy.
- The increase will be pushed by growth of the major international players as iTunes and key local players such as Play.
- Local companies such as Play are bolstering catalogues and engaging in experimentation with film windowing strategies across their addressable connected device base.



Market focus – MEA

Paid-for OTT services – predominantly SVoD – are now being established in the Middle East and North Africa

- MENA region is heavily reliant on **FTV** online video consumption via players such as YouTube and local services such as Shahid.net and Istikana – this reflects the nature of the traditional broadcast market.
- **Paid-for** online video services are finally taking off however, and establishing themselves – Google and iTunes services are available (depending on market); however the latest push for growth in paid-for media has come from subscription-based players.

Icflix – SVoD service, launched in June 2013. Rolled out across Middle East and North Africa first, now available globally. Mix of Hollywood, Bollywood and Jazwood (Arabic) TV series and movies, as well as children's shows and sports. Available on the web, mobile devices and Samsung and LG smart TVs. Content is available in English, French and Arabic. Monthly fee – US\$7.99 a month.

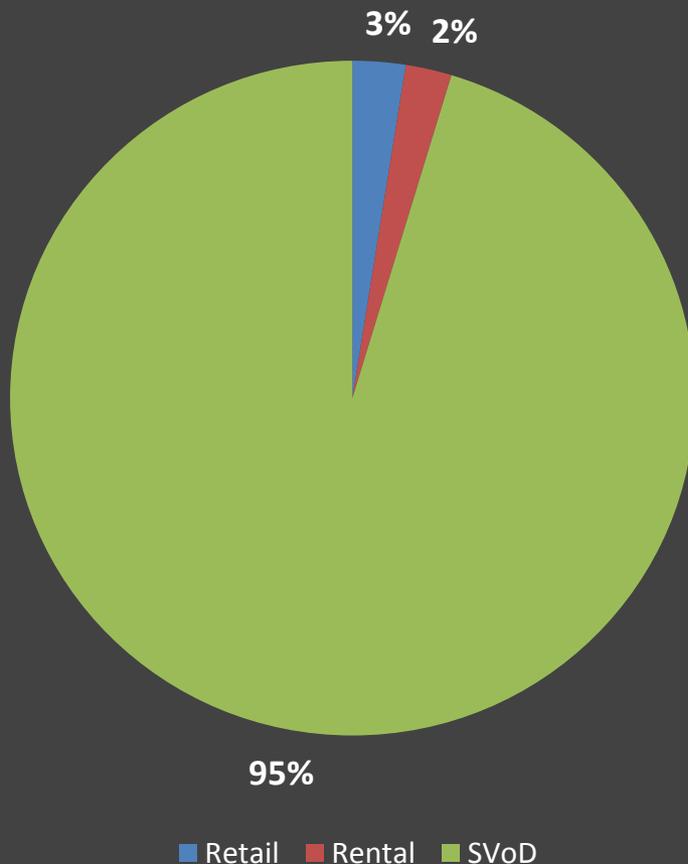
OSN Play - Dubai-based pay TV operator OSN introduced multiscreen service **OSN Play** in September 2013 bringing online (web only) access to content for its pay TV users free of charge.

Go by OSN - Further development in online video from OSN has arrived in the form of 'Go by OSN,' a standalone subscription service launched in May 2014. It is available to users in 22 countries across the Middle East and North Africa for \$10 a month. The service is currently available on PCs and Macs, smartphones and tablets, and soon to be launched on connected TVs and gaming consoles.

eLife ON: Local telecoms groups such as Etisalat have also begun to engage in TV Everywhere – Etisalat now offers subscribers the opportunity to upgrade to TVE service eLife On, which offers 200 live TV channels for roughly \$8 per month.

Turkey is a good example of a market with strong local SVoD players

Turkey: online paid-for video sector by business model (2014)



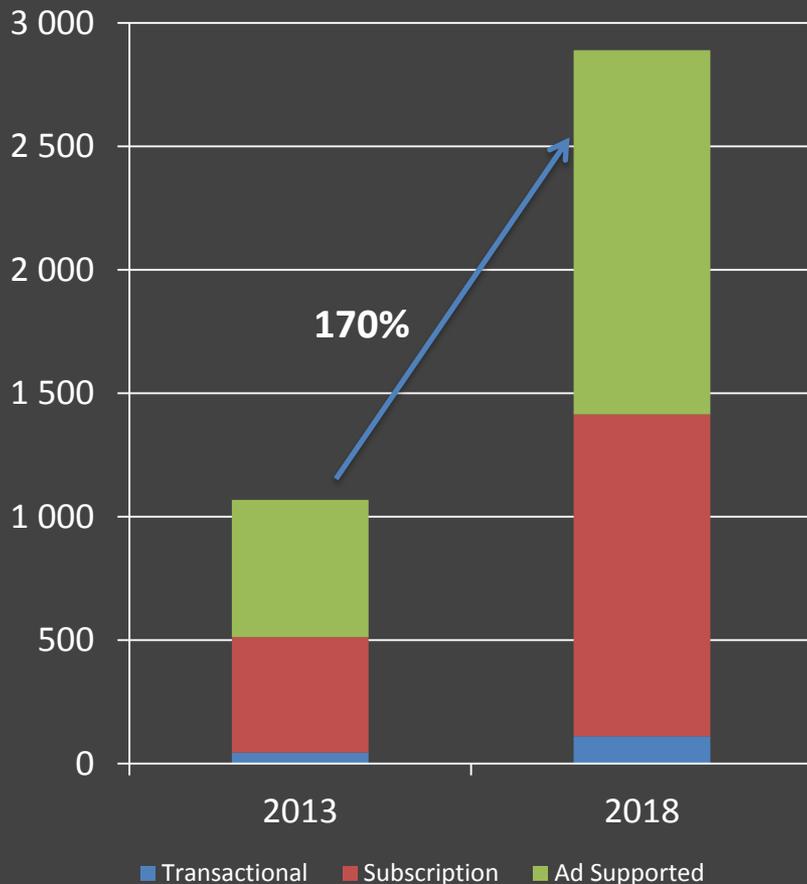
- Despite the fact that the Turkish online video market has strong ad-funded players including broadcasters, as well as international free-to-view services such as YouTube and Dailymotion, the paid-for sector has begun to take off, with SVoD driving the bulk of growth.
- IHS expects the SVoD sector to reach €155m revenue per year by 2018.
- Leading service is owned by telco TTNET – Tivibu was launched in 2010 and offers movies and TV content via live channels and on-demand options.
- By Q1 2014 it had reached 1.9m subscribers: 0.3 through IPTV offer and 1.6m through online video.



Market focus – Latin America

Netflix is driving growth in the Latin American online video space, despite slow initial start

LATAM: online video market revenues (\$m)

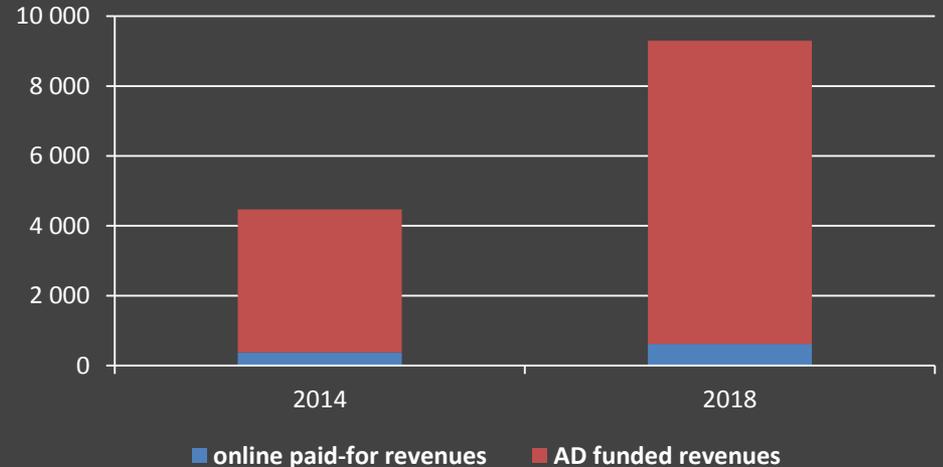


- Latin America is expected to grow strongly in online video revenues over the next five years - SVoD is expected to be the driver of the bulk of growth of the paid for segment of the market.
- The SVoD sector is expected to reach substantially in excess of \$1bn by 2018.
- **Netflix** is the main driver of the LATAM SVoD market: it is available across 44 countries in the region.
- Although the company initially struggled to gain traction, with low use of credit cards and online payment mechanisms, the company is now establishing itself.
- Local SVoD services do exist, and include services from pay TV operators Claro (Clarovideo) and Maxcom (Yuzu) – however Netflix has substantially greater scale.

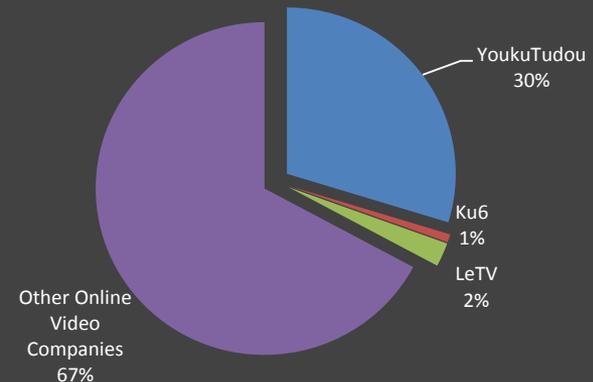
China is the key growth driver for online video amongst Asian markets

- The online video space in the Asia-Pacific region is dominated by ad-funded services; however, paid for segment has begun to expand, partly due to the emergence of major transactional international players such as iTunes and Google Play, but mainly through the development of the local online video services.
- China is the key online video growth market amongst developing Asian markets; however regulatory measures ensure that international services have yet to launch – the local market is consequently dominated by local video services, predominantly ad-funded.
- The leading position (almost 30% of the market) is taken by YoukuTudou, a local internet portal and communications company which emerged through the merger of rivals Youku and Tudou in 2012. YoukuTudou offers a wide range of entertainment activities: from messaging to online video services to e-commerce.

Asia Pasific: online video market trends (\$m)

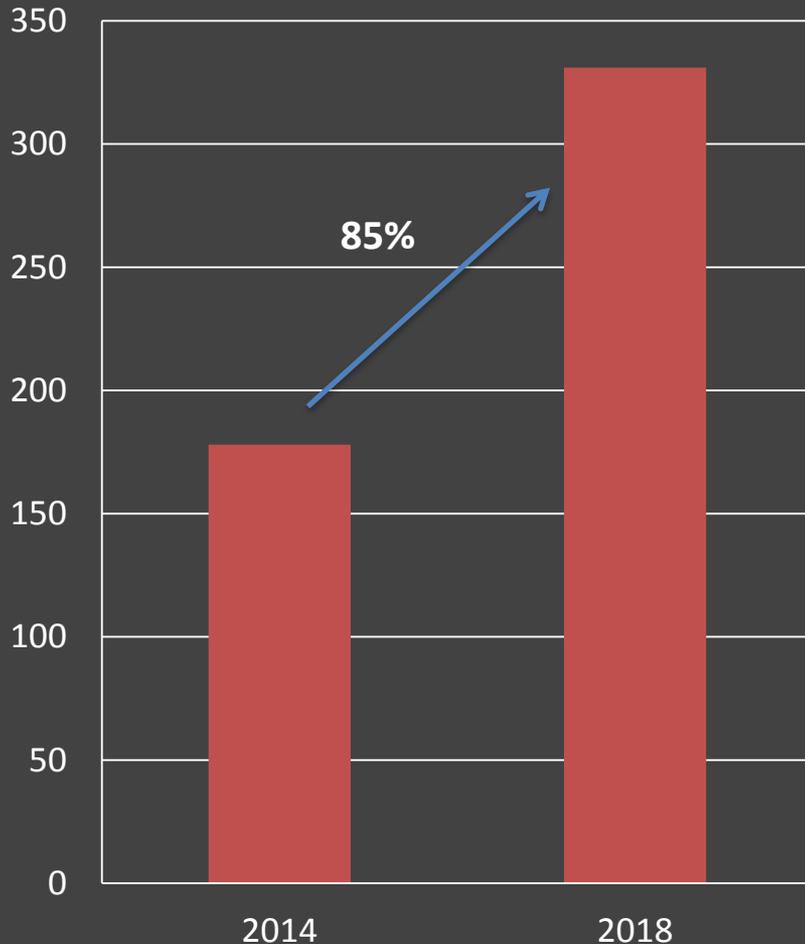


China online video advertising market share - 2013



Recently, China has seen launches of premium SVoD offerings from the main players

China: SVoD revenues (\$m)



- Internet portals such as YoukuTudou, Tencent have recently launched premium paid-for offerings (Youku Premium, Tencent Hollywood VIP) relying on domestic content as well as international shows from the US, Europe and Korea.
- Given the scale of Internet piracy, content owners and distributors targeting the Chinese market have increasingly turned to online services – partly due to the fact that online services are subject to less strict regulation/censorship than broadcast channels, allowing content to reach the market more quickly – reducing the potential risk of consumers having already watched via illicit means.
- The subscription VoD market in China is expected to reach over \$330m by 2018 in annual revenue.

Chinese online video market is a battlefield for broadcasting rights

Content rights acquisitions

- Sohu TV, online video service from Sohu-Chinese online media services group, has been very active among online video portals in acquiring broadcasting rights to American TV shows. In 2010, it was the first to stream the show, “Lost”. Since then, it has obtained exclusive rights to several other series, including “House of Cards” and “Big Bang Theory” and others.
- Tencent Video has announced the exclusive right of online distribution of the popular reality show ‘Voice of China’, season 3 for 2014.
- Letv, operated by Beijing’s LeTV Mobile Media & Technology Co., has spent 50 million Yuan (€6m) on reality show ‘I am a Singer’, season 2 from Hunan TV.
- PPTV, an online video provider (recently acquired by retailer Suning) has purchased an extensive rights package from Jiangsu TV.
- iQiYi, video service from a search engine Baidu, Inc., disclosed that among the top ten searched-for programs on Baidu, seven will be distributed on iQIYI and PPS platform from 2014.

Investment in own productions

- Sohu Video intends to double its investment in self-produced content in the coming year.
- YoukuTudou claims to be investing 300 million Yuan (€35m) in online in-house productions, (across self-produced program, co-productions and user-generated content).
- iQiYi is to set up a wholly-owned movie and television production company, which will be positioned to invest, produce and distribute content – in a similar way to moves made by other organisations internationally such as Dailymotion.

Opportunities and strategies of success in emerging online video markets

- **Large population, high growth:** Covering over 80% of the world population, having growing economies, and developing broadband infrastructure, emerging markets now represent an opportunity for online video services.
- **Appetite for international and domestic services:** Major international services, namely iTunes, Google Play (and Netflix to some extent) have already started to establish themselves in emerging regions. At the beginning of 2014 Google Play added its transactional online movie service to 52 countries across the world, concentrating on emerging markets. In addition to the international services, emerging markets have begun to see launches of local SVoD services with Voyo in CEE region, Tivibu in Turkey, YoukuTudou in China being the most notable examples.
- **Free-to-view strong, paid-for beginning to become established:** While ad-funded services, both international and local, remain strong, paid-for services in emerging markets are taking hold. Russia, China, Brazil, Mexico, and Turkey are among the fastest growing emerging markets for paid-for video. The Russian paid for online video segment is expected to increase over 5-fold during the 2013-2018 period.
- **Best practices behind the growth of successful paid for services include:**
 - Attention to local content and regional genre preferences are key elements of an attractive content proposition in emerging online video markets – Chinese services such as YoukuTudou offer a compelling mix of international and domestic shows.
 - Focus on appropriate connected devices. Opportunities may arise from Smart TVs – growing installed base, high level of security protection and opportunity to apply shorter window after theatrical release could provide additional opportunities to attract customers ready to pay – particularly in markets with low pay TV or theatrical reach such as the Middle East and North Africa.
 - Experimentation with windowing after theatrical release is a viable option in many developing markets. Russians are already buying premium movie downloads just 3 weeks after the local cinema release: e.g. Via Play.

About the Author

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