



### OTT Services – A Digital Turning Point of the TV Industry



#### Highlight

- The widespread availability of high-speed internet in developed countries like the US, the UK, and Korea has given rise to Over-the-Top (OTT) service. OTT is a fast-developing new service which delivers contents over the internet without the need for network investment, providing cheap and easy access for customers. It is rapidly gaining popularity and may affect traditional television services in the long run.
- EIC views that OTT presents both an opportunity and a threat for old and new media operators. Startups can benefit from being the first in the new media while traditional TV operators will have to adapt to maintain their market share. Advertising agencies will also have to consider promoting their campaigns through online channel to capture the changes in consumer behavior.

Over-the-Top or OTT is a service that delivers audio, video, and other media over the internet without network investment by a service provider. It is a new business trend that is fast becoming more important. OTT is an innovation providing communication and contents through internet applications to meet consumers' demand for more technological applications over the past decade, and to help service providers differentiate themselves from competitors. Neither customers nor operators need extra equipment or network investment. For example, Netflix and Hulu provide online films and TV programs without requiring clients to install an extra antenna or satellite dish. There are no additional transmission costs to OTT operators as is the case with traditional TV operations.

A study of the US television industry shows that OTT is more attractive than traditional TV in terms of convenience, price, variety, and the ability to analyze consumer behaviors. OTT has revolutionized US media and posed a challenge to the traditional media industry. It can provide video on demand, anywhere and anytime, on any equipment connected to the internet, such as smart phones, tablets, computers, and smart TVs. OTT also offers low-cost packages to customers, with the average monthly subscription rate of around USD8-10 which is at least 8 times cheaper than cable TV or satellite TV membership fees. Even though OTT-subscription fees may be higher than that of free TV, OTT has the advantage of offering binge-watching with a variety of films, TV programs, and popular series as well as OTT-exclusive series, all without interruption by

advertising.

Moreover, on-line connections enable the collection of precise and detailed data about individual viewers, which in turn provides feedback for new products to help OTT meet customer requirements. Netflix, for example, has found that no Netflix viewers were ever hooked on the pilot episode, which is in line with the Netflix binge-release strategy whereby viewers can watch the series from beginning to end. With traditional TV, viewers have to wait a week for the next episode and may not follow the entire series if the pilot episode is not attractive.

**As such, OTT has become highly popular in the US, contrary to the decline in cable TV and satellite TV viewers.** Before the arrival of OTT, cable TV and satellite TV in the US were a big entertainment business, worth USD 70,000 million and with over 100 million subscribers, or 90 % of US households. It began to lose market share to OTT of 0.5 to 1% per year or around 1 million viewers a year starting in 2013. On the other hand, Netflix and Hulu OTT subscribers together equal more than half the number of cable and satellite TV subscribers, with average annual growth of 18% and 100%, respectively in the past 5 years. Furthermore, TV advertisements, with a 37% share of total advertisement in 2015, are losing out to other forms of media. According to leading US market research firm eMarketer, TV advertising will fall by 0.5% a year while advertising on digital media will increase from 31% in 2015 to 37% by 2018, surpassing TV advertising and reflecting a decline in the popularity of traditional TV.

**In addition, the arrival of set-top boxes such as Apple TV, Roku, and Chromecast as well as changing consumer preferences towards on-line viewing will push further growth in OTT.** Findings by market research firm Park Associates show that almost 20% of US households with high speed internet have at least one set-top box that allows them to enjoy internet TV. Widespread use of this equipment will make OTT use on TV screens easier and more convenient. The media consumption behavior of young people is also shifting. As discovered by large US cell phone company Verizon, 60% of Gen Y (15-34 years of age) use on-line entertainment channels instead of traditional TV. All these factors will help OTT to expand further.

**Although OTT is not yet widespread in Thailand, the steady increase in technology access may affect media consumption behavior in the long run.** At present, Thailand's total sales of internet connectible equipment is quite high at 12 million smart phones a year, with a trend of 6% annual rise predicted for 2016-2020. Some 50% of Thai households will use internet TV by 2020 as a result of increased availability and prices of less than 10,000 baht a set. Furthermore, household access to broadband internet in Thailand continues to increase at a high rate of 15% a year, while consumption of IT products also continues to rise. All these factors point to a jump in access to technology. Apart from this, the expansion of mobile phone 4G networks is also underway. The giant information and telecommunication firm Ericsson has found that when 4G roaming service is available, more than 50% of users will use video on demand at least once a day, which means that more and more Thais will consume media online.

**While increasing OTT service in Thailand will be an opportunity for OTT operators, it will also**

provide a major disruption to the internet service providers and traditional TV operators, as well as change TV and media ecosystems. A jump in online traffic can be expected upon the arrival of OTT services. As in the case of the US and Canada, OTT service providers like Netflix use 36% of internet traffic, which is high enough to affect internet service providers (ISP) and discourage investment in network expansion as the providers will not get any return from OTT operators. In addition, traditional TV operators may lose market share as advertisements will be allocated to other media formats, including online media which has more eyeballs. Although 60% of advertisements are still concentrated in the traditional TV media, there are signs of a drop in advertising in other traditional media like print and radio, from 26% in 2010 to 21% in 2015, and a trend towards online media and out of home media. In the future, TV media may face a fate similar to that of other traditional media.

It is clear that some traditional TV operators are beginning to adapt to the changing needs of consumers. Since TV advertising income of 60-70 billion baht a year in Thailand is growing at a slower pace due to a sluggish economy, there is a need for operators to adapt to compete for maximum advertising revenues and audiences. At present, many operators are beginning to make the move to OTT service. For example, Channel 7 has opened a new website and mobile applications, Bugaboo.tv, for online TV programs and live sports with some contents available only on websites. GTH, Workpoint and Thairath TV have joined hands with Line to launch Line TV applications for movies, series, and music on mobile phones, tablets and computers as a means to increase viewers and gain additional revenue for TV operators.

## Implication

- **Startup firms have an opportunity to snap up gains from OTT development that meets new consumption demand.** OTT provides a platform on the internet to start with a small initial investment for new startup businesses. Startup operators should focus on obtaining copyrights for attractive programs and make suitable membership or advertisement charges to attract Gen Y consumers and a maximum number of viewers. Startup firms may use a Freemium pricing strategy, which allows initially free viewing with additional charges to continue with the rest of the program. This may suit Thai consumers who are more familiar with free TV than pay-TV. Startup firms may also consider successful Netflix model of low and differentiation pricing to set up their pricing schemes. For example, they may offer a Basic Plan at a low rate for single users or a Premium Plan at a higher rate for family users that allows 4 receivers at the same time.
- **Existing TV operators need to become more flexible and innovative to attract every group of viewers.** The key to success is getting the maximum number of viewers. In the longer run, with OTT playing a bigger role in Thailand, EIC expects existing operators, whether free TV, cable TV or satellite TV to adapt and invest in every possible media channel, including new media forms to maintain their audiences. For

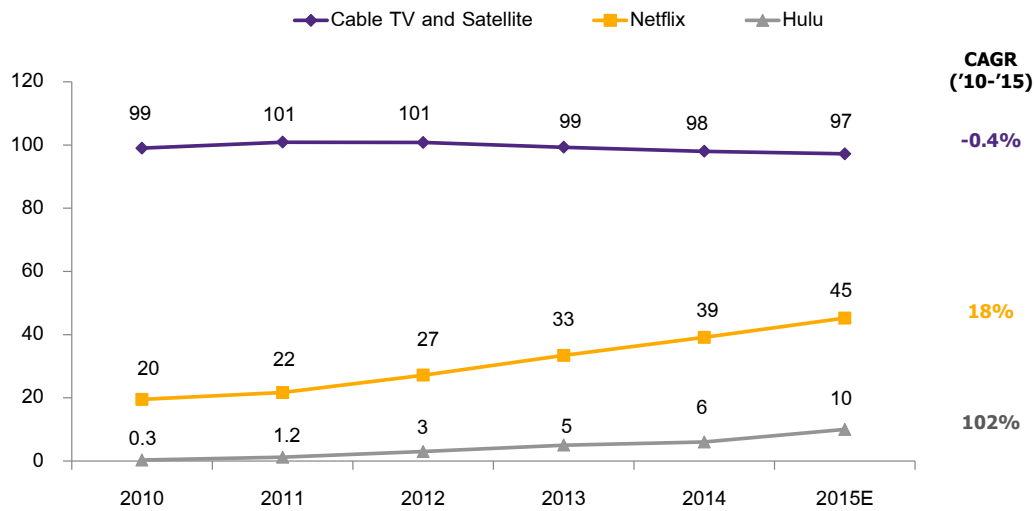
example, they could develop applications to receive online and live programs on any type of equipment, with a choice of payment plans for binge watching. There could be business alliances between TV operators and OTT providers to strengthen program content, technology, and the potential audience base.

- **Advertising agencies should explore how to increase their share of online media adspend to be in line with the new trend in media consumption.** During the past years, there is no reliable body to monitor online viewing, which makes advertising agencies rather reluctant to consider advertisements in online media. However, traditional TV media is likely to be replaced by online media in the long run, and a comprehensive digital audience measurement has already rolled out. For example, Nielsen launched its Digital Ad Ratings in Thailand last July to cover information such as reach, frequency, demographics, and gross rating points. Such services could provide program producers, advertising agencies, and advertising clients with a better and more accurate picture of digital content ratings. Advertising agencies, therefore, need to explore new forms of online advertising and rating evaluation in order to find the right mix of online advertising spending, such as promotional events and special campaigns, that is best suitable for target groups.
  
- **In the long run, relevant public authorities and the private sector should work out appropriate regulations for internet infrastructure.** As OTT service is provided without an operator network, ISP providers may lose out and refrain from new investment, which could directly affect internet utilization efficiency and customers. It is widely debated in developed countries whether to impose charges on OTT providers or websites that take up high internet network traffic or whether ISP service should adhere to net neutrality. All interested sectors should collaborate in advance to lay down directions and regulations on internet infrastructure development for the fair and maximum benefit of both suppliers and consumers.

Figure 1: There is a strong jump in OTT subscriptions in the US while there is a gradual downward trend in cable TV and satellite TV membership

**The number of pay-TV subscribers in the United States**

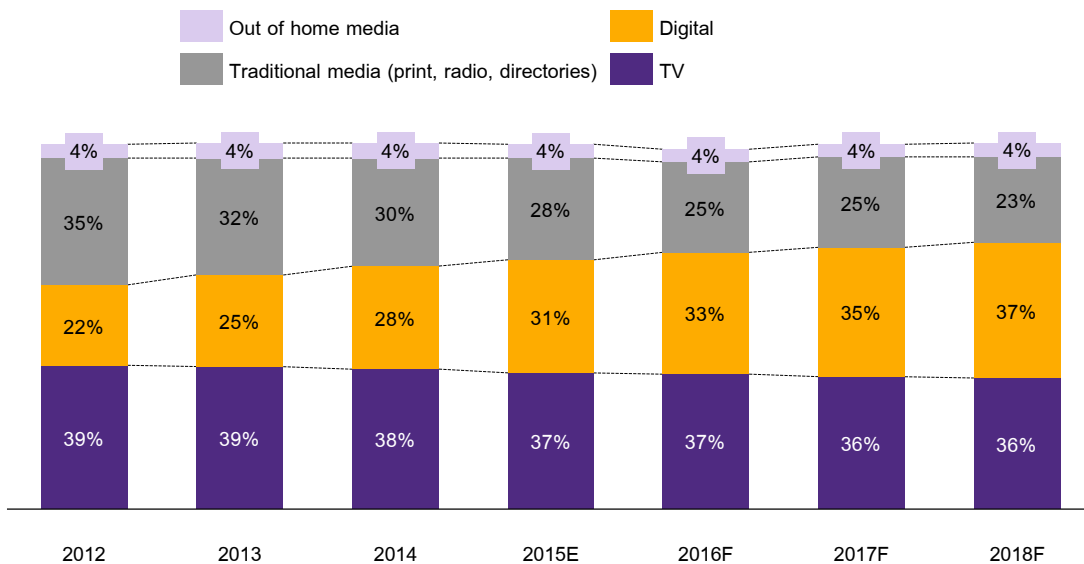
Unit: Million people



Source: EIC analysis based on data from Statista, TDG Research, Netflix and Hulu

Figure 2: TV advertisements in the US are declining and will be surpassed by digital media by 2018

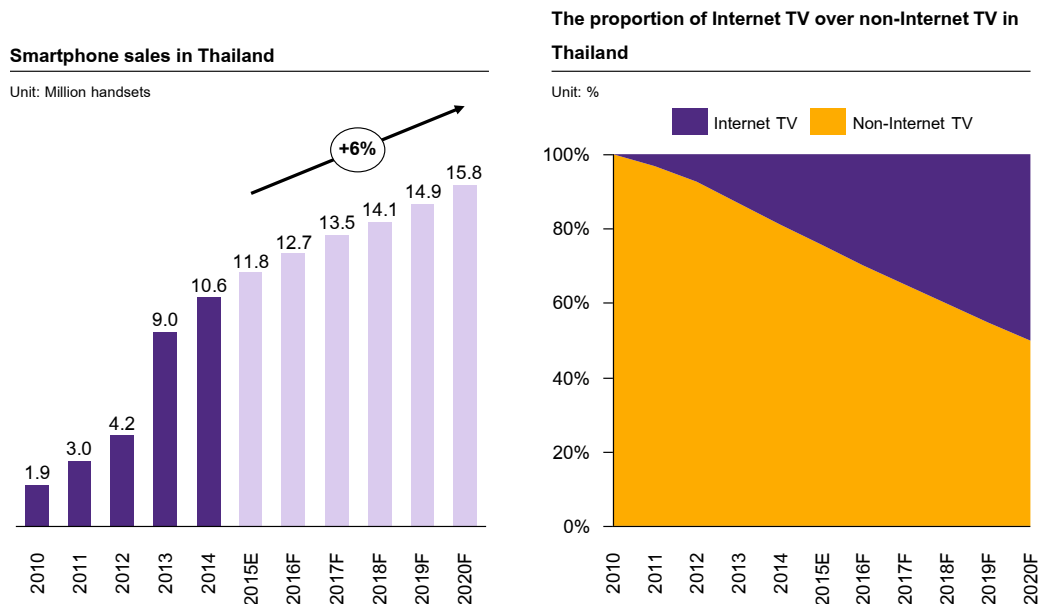
**Advertising revenue shares by platform**



Source: EIC analysis based on data from eMarketer

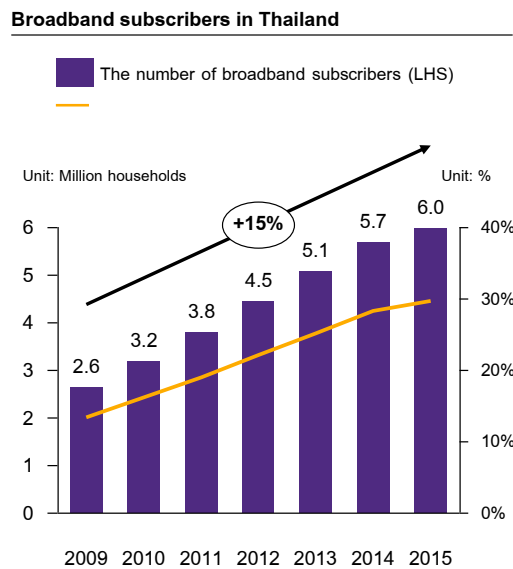
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Figure 3: The sale of internet-connecting devices in Thailand has been growing exponentially



Source: EIC analysis based on data from Euromonitor

Figure 4: Access to broadband internet in Thailand continues to grow steadily and can affect public media consumption patterns in the long run.



Source: EIC analysis based on data from National Broadcasting and Telecommunication Commission (NBTC)

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