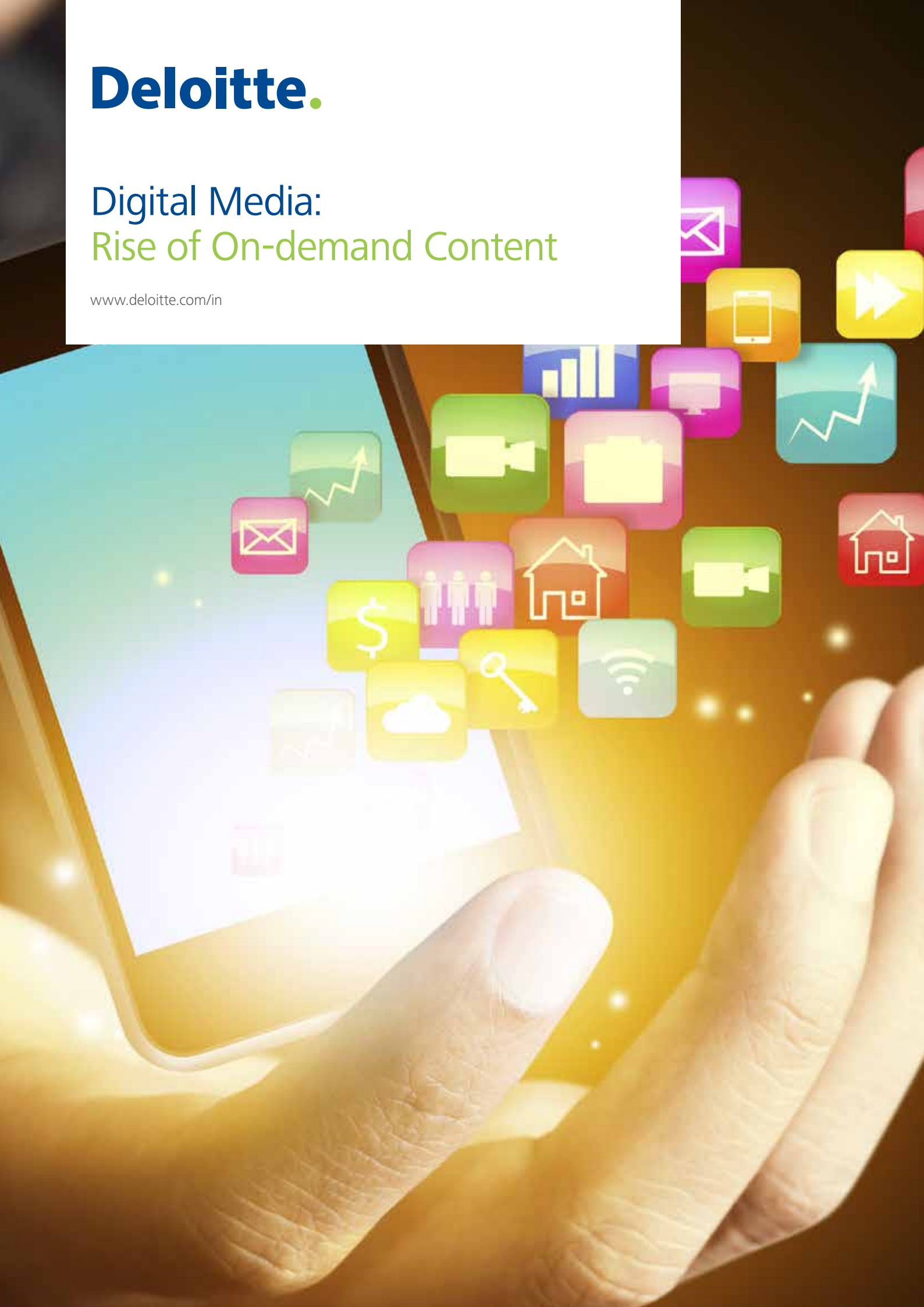


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## Digital Media: Rise of On-demand Content

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# Foreword



**Hemant Joshi**

Welcome to the Deloitte's point of view about the rise of On-demand Content consumption through digital platforms in India.

Deloitte's aim with this point of view is to catalyze discussions around significant developments that may require companies or governments to respond. Deloitte provides a view on what may happen, what could likely occur as a consequence, and the likely implications for various types of ecosystem players.

This publication is inspired by the huge opportunity presented by on-demand content, especially digital audio and video in India. Our objective with this report is to analyze the key market trends in past, and expected developments in the near to long-term future which are likely to have a significant impact on companies operating in this space in India.

Our endeavor is to provide a considered point of view on

key industry trends and developments in key sub-sectors. In some cases, we seek to identify the drivers behind major inflection points and milestones while in others our intent is to explain fundamental challenges and roadblocks that might need due consideration. We also aim to cover the different monetization methods that the players are experimenting with in the evolving Indian digital content market in order to come up with the most optimal operating model.

Arguably, the bigger challenge in identification of the future milestones about this evolving industry and ecosystem is not about forecasting what technologies or services will emerge or be enhanced, but in how they will be adopted.

Deloitte hopes that you and your colleagues find this point of view a useful stimulant in your strategic thinking and planning.

# Global Trends: Transition to On-Demand Content

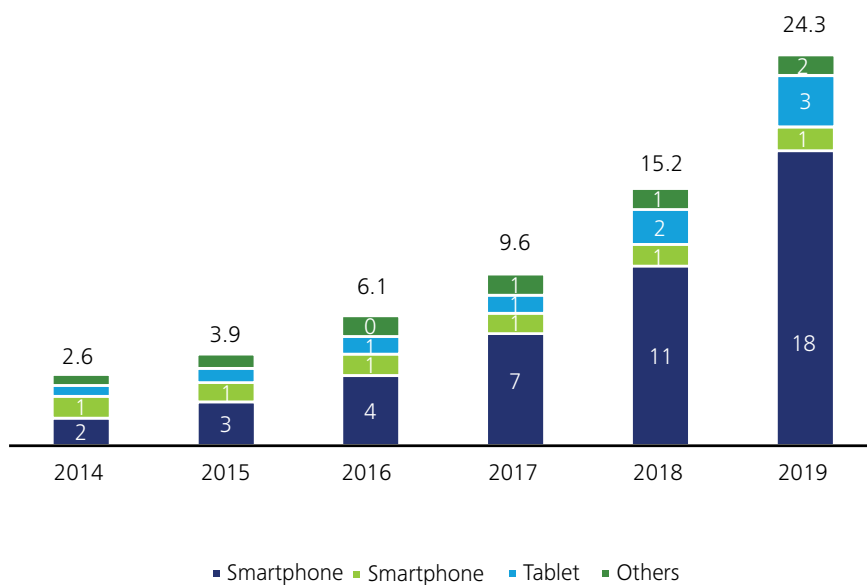
Media consumption across the globe is increasingly happening in digital formats. The increase in the number of devices capable of supporting digital media along with increasing internet access speed, has provided consumers with an option to access the media content of his choice be it information, entertainment or social activity anytime, anywhere. Media consumption in the US has shown tremendous increase and has seen a significant jump from traditional media to new (digital) media. The rise of digital media players such as Netflix, Hulu, Amazon, Apple TV, Roku, and Boxee, etc. are challenging the traditionally maintained supremacy of the television as the main entertainment hub.

## Mobile devices driving the digital consumption

Online media consumption has shown tremendous growth over the past few years. Among the digital devices, mobile devices have taken over as the preferred medium of consuming online media. The smartphone market has seen an unprecedented growth in the last 5 years. Smartphone devices across the globe grew at a CAGR of 17% as compared to 9.5% growth in all mobile devices. Smartphones crossed 2 billion mark in 2014 and are expected to reach 4.6 billion by 2019. This increase in the number of mobile devices is making it easier for consumers to access music and video content on the go.

In 2014, the smartphone mobile data traffic alone stood at 1.73 EB per month (69% of global mobile data traffic), which is expected to grow 10-fold from 2014 to 2019, a compound annual growth rate (CAGR) of 60%. Tablet mobile data traffic will grow 20-fold from 2014 to 2019 (CAGR of 83%) to reach 3.2 EB per month. <sup>1</sup>

Figure 1: Global Monthly Mobile Data Consumption (Exabyte)



Source: CISCO Mobile VNI report, 2015

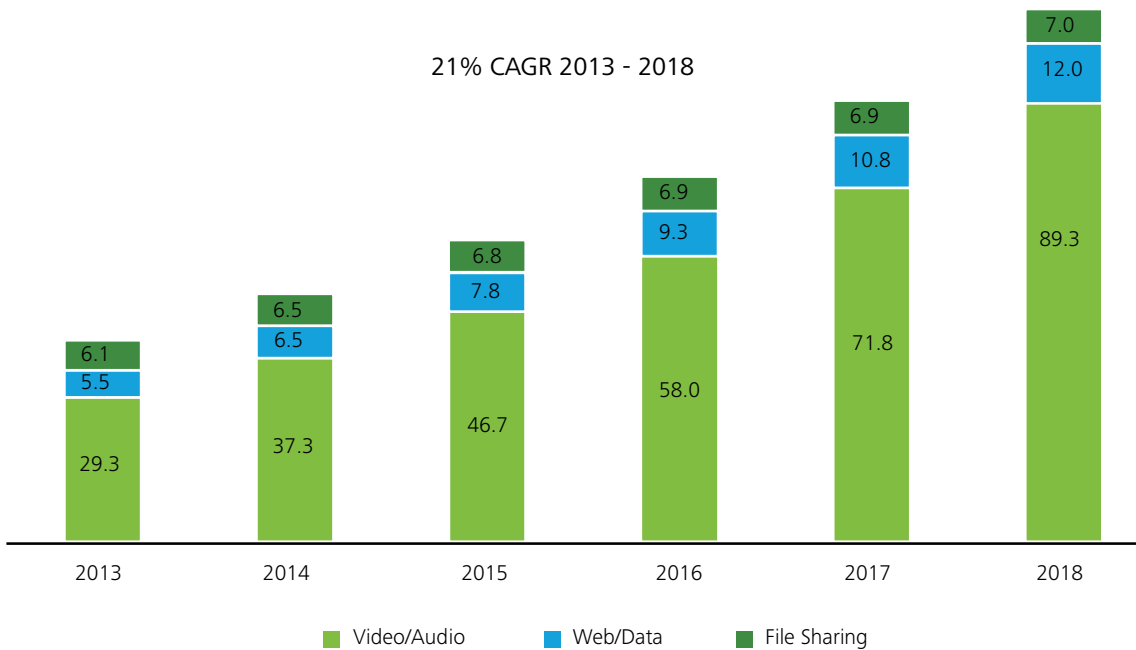
The internet has been and continues to be a disruptive force impacting distribution and consumption channels for media. With better networks, coverage, and advanced technologies (3G, 4G / LTE) the data consumption across the globe has risen.

**Audio & Video drive the global digital media consumption**

Most of this data growth is attributed to different digital media especially the entertainment services like video, audio etc. Globally, video and audio traffic has dominated the internet data consumption for some

years now. The devices used to access digital content have evolved in the last few years that have increased the array of platforms on which a user can stream audio and video content. Netflix share of internet traffic in North America increased further and accounted for 34% of data flowing to consumers during the peak times in first half of 2014. <sup>2</sup> Over-the-top (OTT) service providers like YouTube and Subscription-based digital content providers like Spotify have also acted as a catalyst in the growth of audio/video data streaming. The global audio and video traffic combined is expected to reach 82% of all internet traffic by 2018.<sup>3</sup>

**Figure 2 : Video and Audio will generate 89% of Consumer Internet Data Traffic by 2018 (Exabytes per month)**



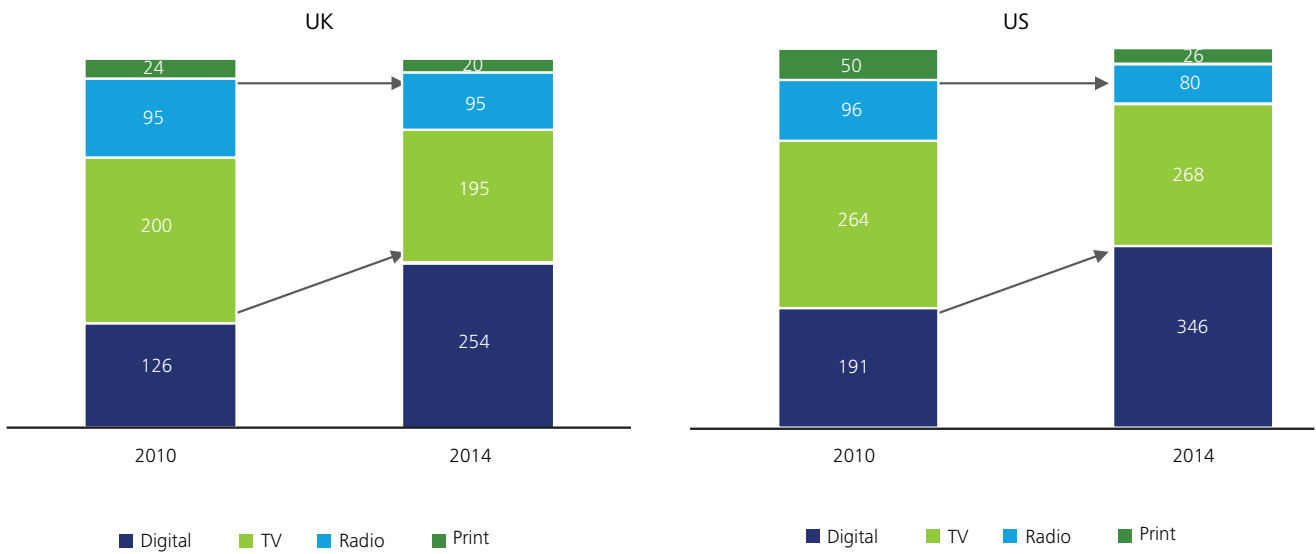
Source: CISCO VNI report, 2014

**Marketers are shifting their advertising spends towards digital media**

There is a marked shift in consumer preferences towards digital media consumption as compared to traditional forms of media which include TV, print press, and radio. People are spending more time each day on digital rather than traditional forms of media. Data from the US and the UK have shown that in last 4 years, there has been a significant increase in the time that people spend on digital media. <sup>4</sup>

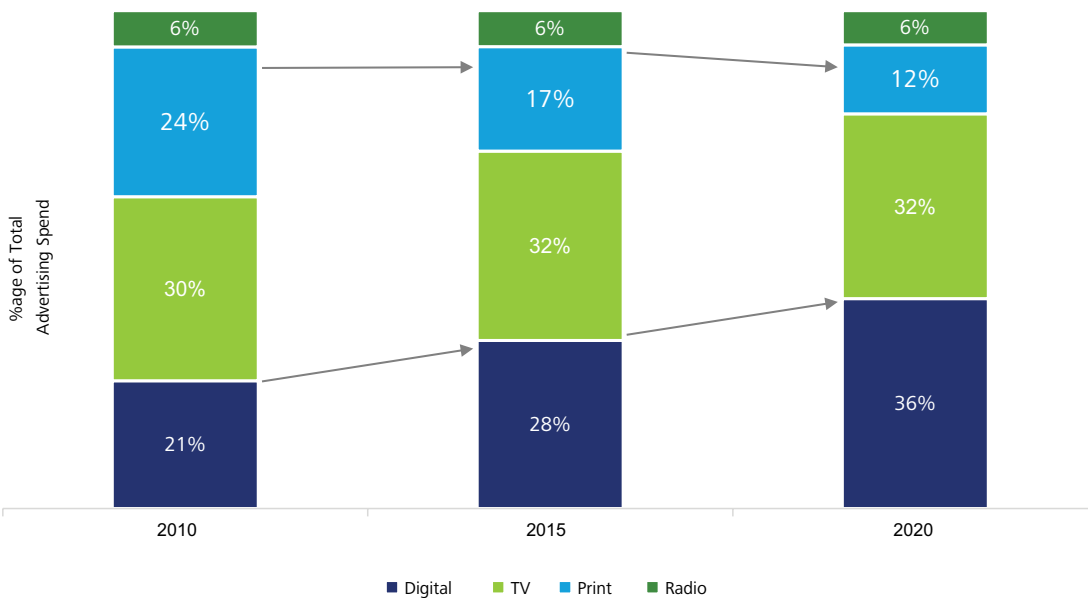
The increasing popularity of digital media has provided for a paradigm shift in the global advertising spends. Marketers are following the changing trend and increasingly allocating their budget to digital mediums. Spending on digital media as a percentage of total advertising spend is expected to increase from 21% in 2010 to 28% in 2015. <sup>5</sup> It is further expected to reach 36% by 2020. This increase is mainly coming by cannibalizing traditional advertising mediums like print.

Figure 3 Actual time spent in minutes per day for an average adult (Minutes per day)



Source: eMarketer

Figure 4 : Change in global advertising media spend



Source: Deloitte Analysis

# Digital Media Landscape in India

In line with global trends, the Indian consumer is increasingly consuming the content on digital platforms. This trend is observed for all type of content including news (text), music (audio), or video. Increasing internet penetration and mobile device proliferation and convenience of consuming the content anytime, anywhere are the key drivers for this trend.

## Rapidly increasing internet users

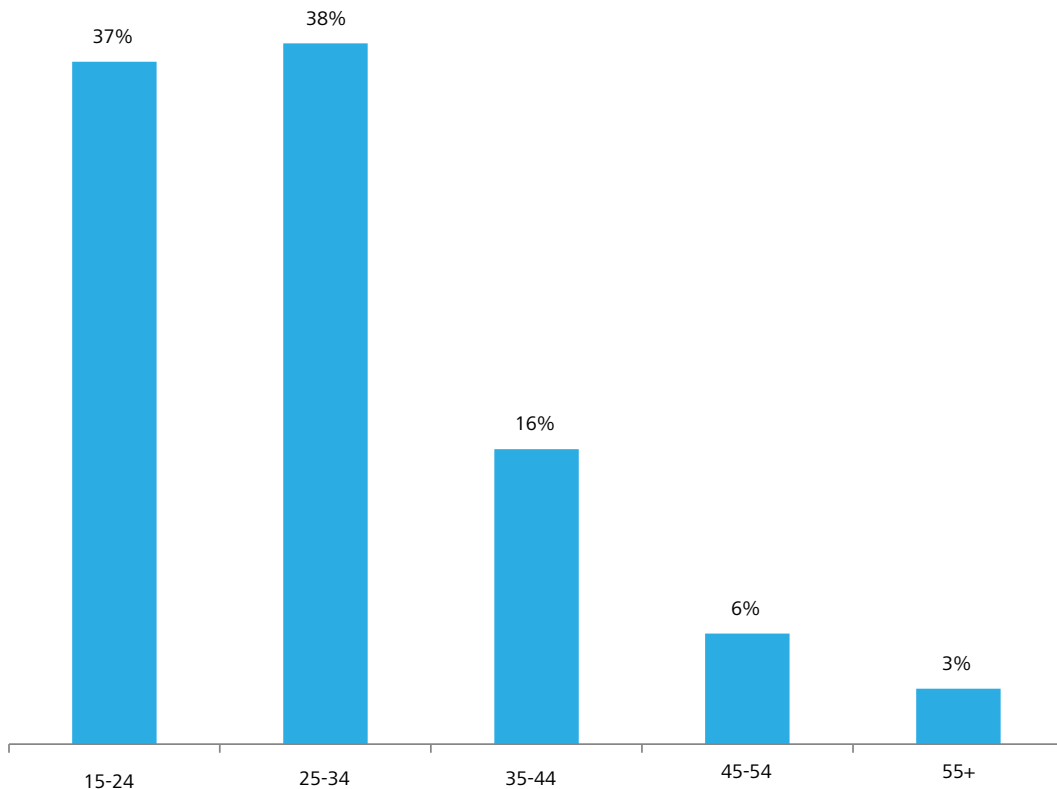
India added 43 million internet users (20.5% growth) from October 2013 to September 2014 and total internet users crossed 254 million <sup>6</sup> in September 2014. Out of these, 235 million users accessed internet through mobile devices. The growth in internet users was seen both in rural and urban parts of India. Internet users in rural India is expected to reach 138 million by

June 2015, while 216 million internet users are expected to be in urban India by then.

With improved networks, better access to internet, multimedia service-capable mobile devices and application development ecosystem, more and more media consumption would happen on digital platforms. India has around 300,000 app developers and is already the second largest Android developer community in the world after the US.<sup>7</sup>

While the internet user base in India is growing at a rapid rate, most of these users (75%) belong to the age group of less than 35 years. More than half of the app users in India are aged between 18 and 24 years and a further 29% between 25 and 35. 45% of these users reside in the top 4 metros.<sup>8</sup>

Figure 5: Indian internet users - age wise distribution



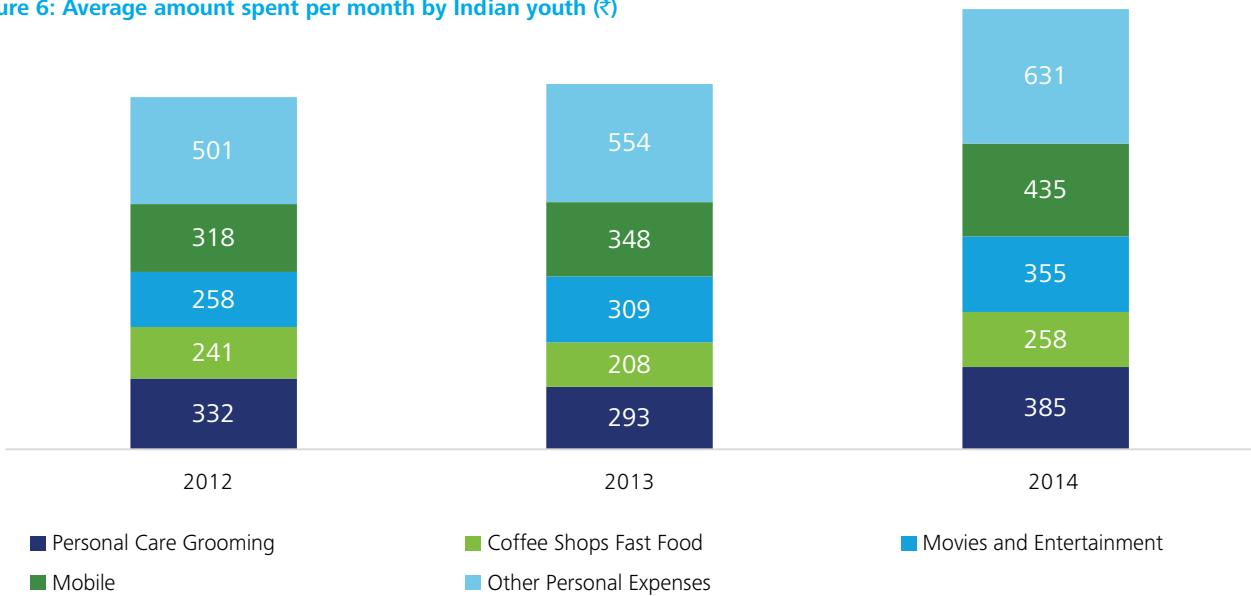
Source: vserv.com



**Higher spend on entertainment services by youth**

On an average, an internet connected user in India spends 14% of his or her time and 17% of his or her monthly spending on entertainment. Combined spend by an internet user on Mobile and Entertainment increased by 34% in two years from 2012 to 2014.

**Figure 6: Average amount spent per month by Indian youth (₹)**



Source: Hindustan Times Report <sup>9</sup>

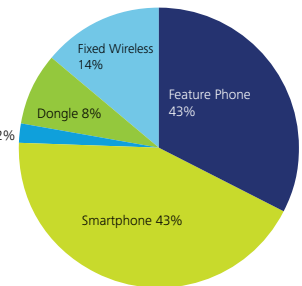
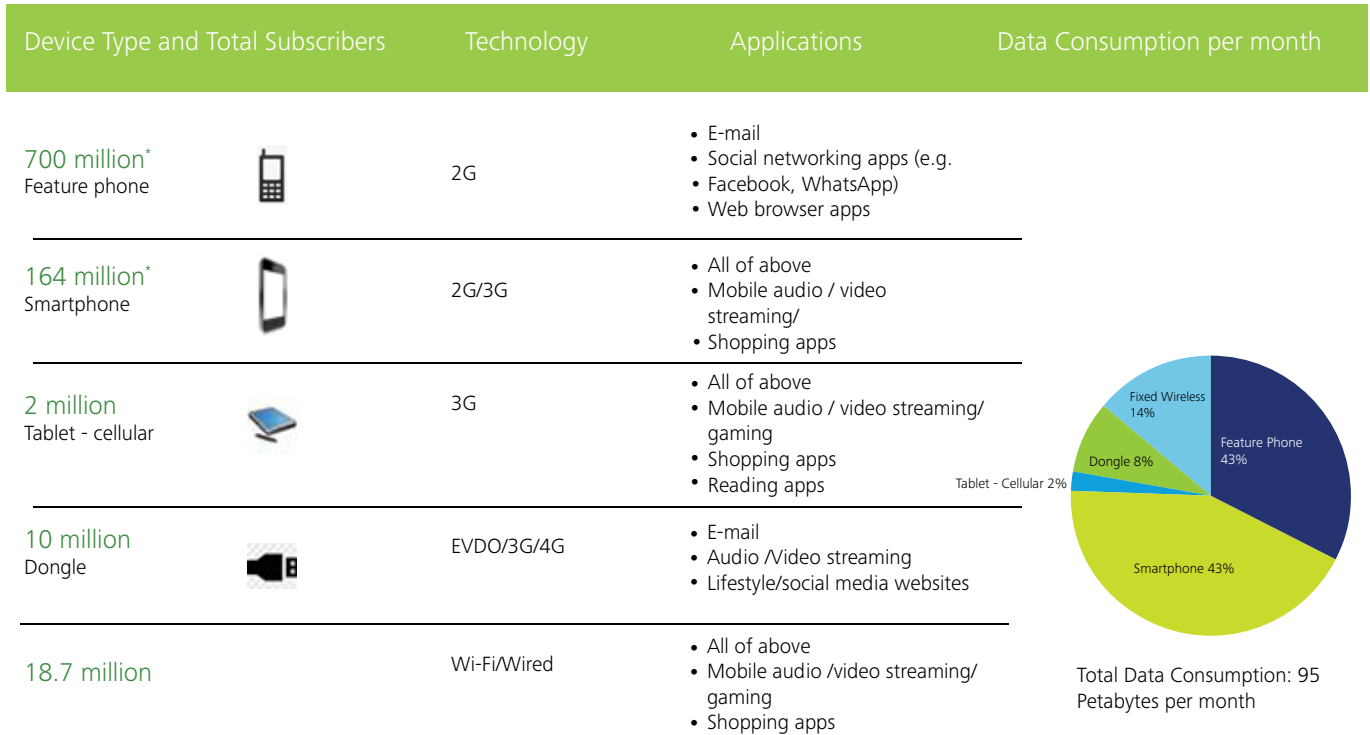
In terms of media consumption, an average mobile web user in India consumes about 6.2 hours of media daily which includes 102 minutes of mobile media and 79 minutes of online (desktop) media consumption. <sup>10</sup> Social media and entertainment (Music & Video) are the two activities on which the Indian mobile internet users spend their time the most followed by games, general search, and emails.

Out of the total time spent on digital media by youths, about 21% of the time is spent on audio and video entertainment. Spending per month by users on digital media especially entertainment is expected to grow by 2.5 times by 2020. A similar trend is expected for the time spent on consuming the digital media services.

**Mobile Devices Driving Digital Media Consumption**

Internet traffic originating from mobile devices in India has already surpassed the desktop internet traffic. Most of the users are now accessing internet via mobile devices. In rural India mobile internet users are set to grow at a rate of 33% from October 2014 to reach 49 million by March 2015 and 53 million by June 2015. In urban India, this number is expected to reach 143 million by March 2015 and 160 million by June 2015. <sup>11</sup> The following table summarizes the current internet user base split as per device usage and application preferences:

**Figure 7: Indian Internet users by device type**



Total Data Consumption: 95 Petabytes per month

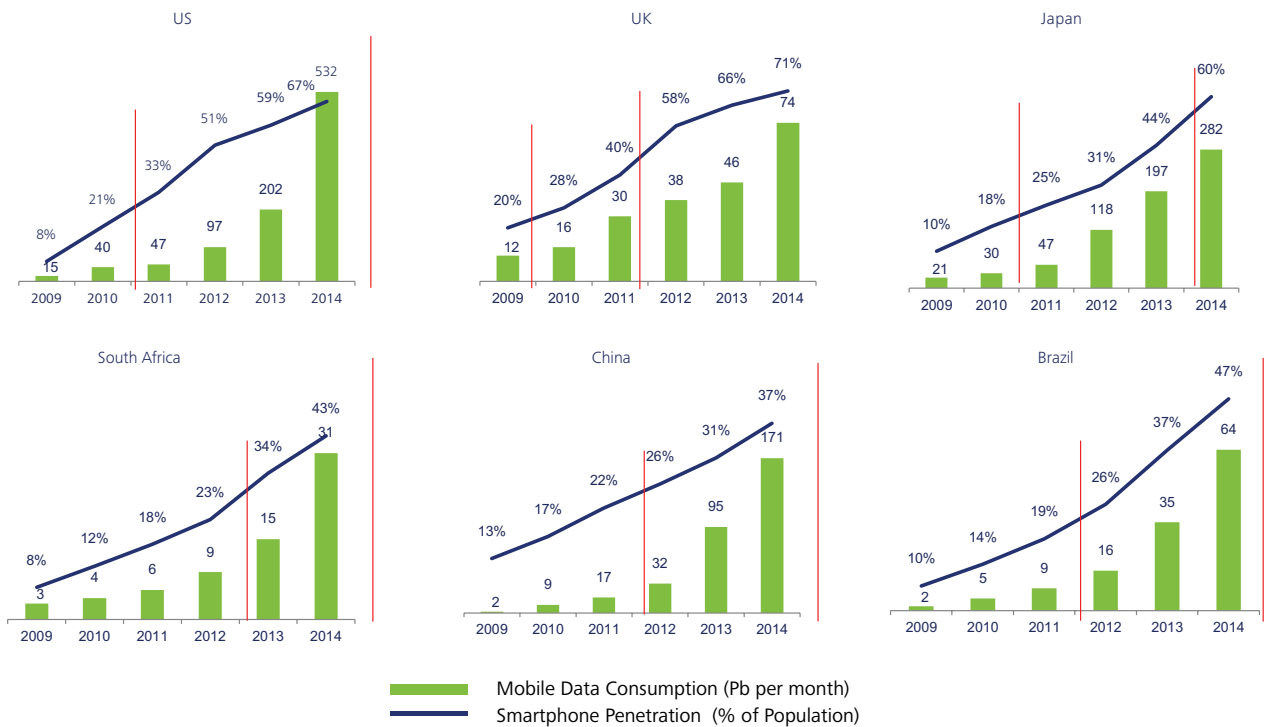
\* Not all subscribers are data users

Source: Deloitte Analysis

Current smartphone penetration in India stands at 13.4% up from 10% in 2014. <sup>12</sup> As per the study done by Deloitte across 25 countries, at 25-35% smartphone penetration data growth gains further impetus and more than doubles as compared to previous period. This

is mostly driven by the data hungry applications and on-demand services. India is likely to follow the global trend and point of 30% smartphone penetration will see tremendous data growth with even more adoption of data hungry applications / services on mobile devices.

Figure 8: Study performed across 20-25 markets particularly emerging markets



Source: Deloitte Research

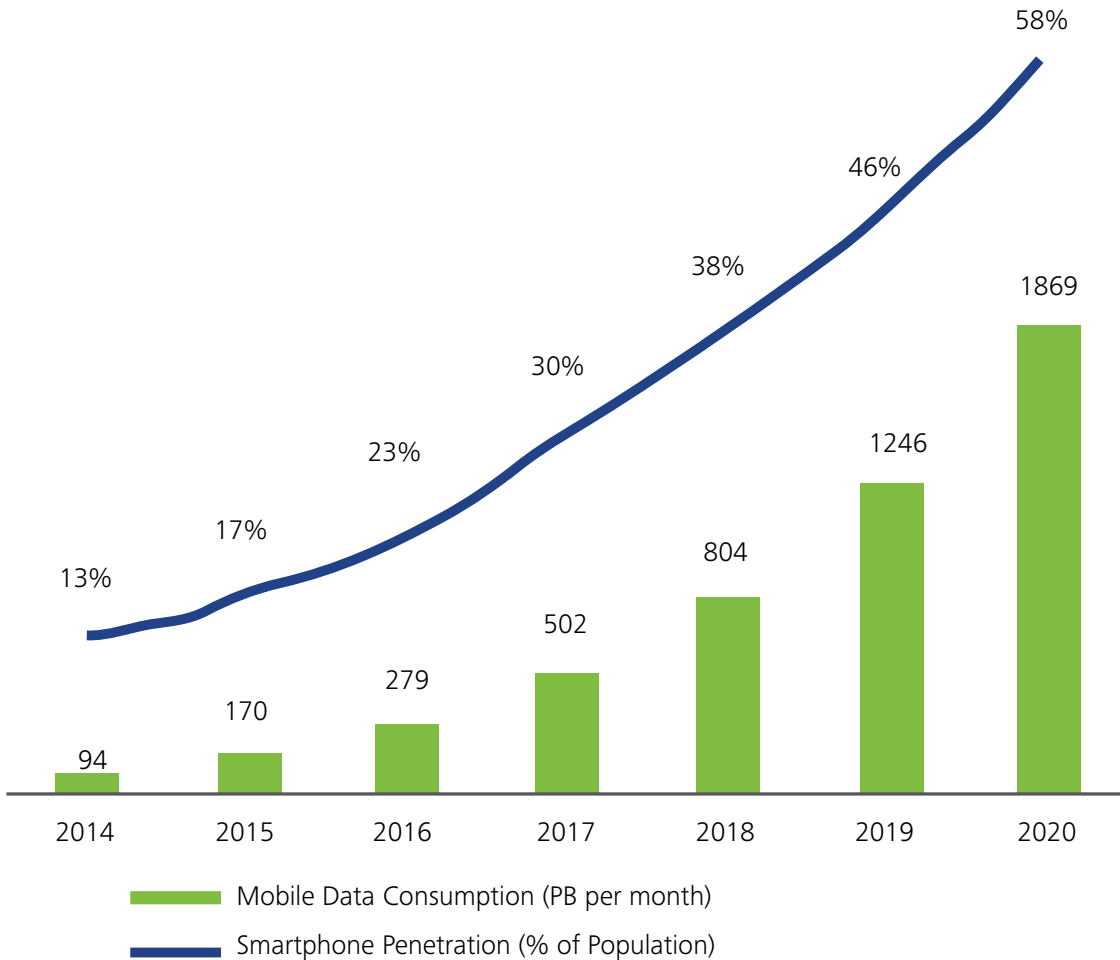
Smartphone shipments exceeded forecasts in 2014 leading to the availability of increased potential mobile data users. Average smartphone price in India in 2014 stood at \$135 and about 84 million smartphone units were sold in 2014. <sup>13</sup> The average smartphone price is expected to fall over the next few years to \$100 while the sales volume is expected to rise to more than 350 units per year by 2020. However, 5-10% extra fall in the prices may increase the sales and penetration more than expected thereby contributing to even higher data growth.

**Rising data consumption with smartphone penetration**

While the proliferation on mobile devices would enable the digital media consumption, data prices, and anywhere connectivity would play equally important role in shaping the digital media consumption habits among Indian users. Average data price per MB on mobile networks has fallen significantly over the past few years; however, mobile data tariffs are likely to mirror the trends in 2G market where voice tariffs in India are stabilizing after long period of sharp falls.

Average data consumption per user in 2014 was 688 MB per user for 3G and 216 MB per user for 2G. On an average, a 3G user consumed about 3x data payloads as compared to 2G counterparts. <sup>14</sup> Further, with high smartphone usage and lower data tariffs, India has already started experiencing S-curve data growth and this trend is expected to continue in the near future.

**Figure 9: Projected smartphone penetration and mobile data consumption (in PB per month) for India**



Source: Deloitte Analysis

With more subscribers using faster access technologies, data would consequently grow faster.

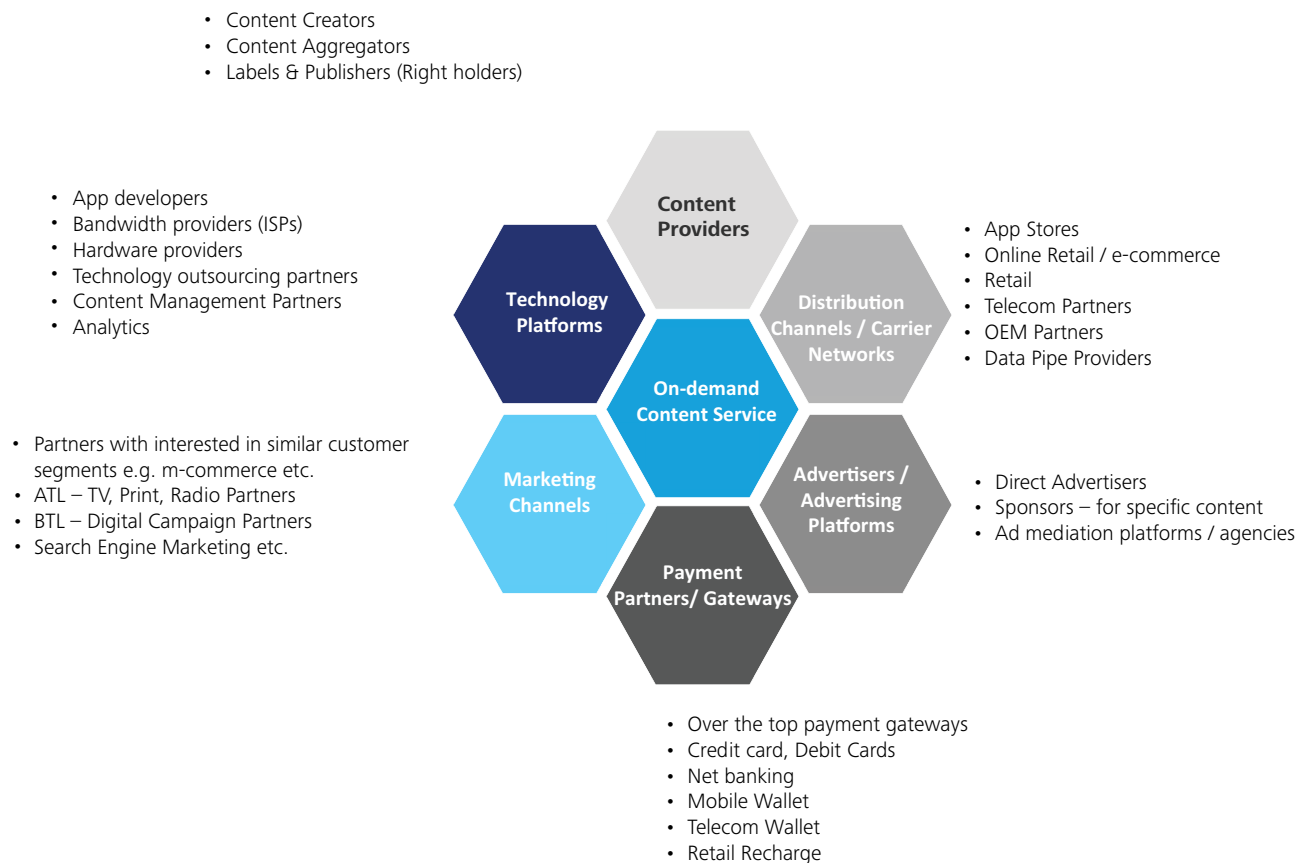
With faster technology, there is an increase expected in adoption of data hungry applications especially entertainment services like On-demand music and video streaming and download. In 2014, about 47% of mobile data traffic was contributed by streaming / downloading audio and video services. As data networks improve in India, it is expected that users would start using higher levels of data. The contribution from on-demand entertainment services is estimated to grow to more than 74% by 2020.

# On-demand Ecosystem in India

On-demand entertainment services led by audio and video content are at the cusp of inflection point in India. Though the traction towards both on-demand download and streaming of the content has just started,

a very promising supply side ecosystem is evolving for streaming with multiple players launching their digital streaming platforms.

**Figure 10: On-demand content ecosystem**



Source: Deloitte Analysis

Content providers (content aggregators, labels, and content right holders) and the technology platform providers that enable the digital delivery of the content form the essential parts of the ecosystem for the services like music and video streaming. Distribution channels for on-demand content service

has been dominated by app stores and telecom players that provide wider reach through their WAP sites to their customer base in past. However, new OTT players are now coming up with innovative models to increase their distribution reach towards targeted audience through e-commerce, retail, OEMs partnerships, etc.

Similarly, for creating service awareness while the players are investing in traditional marketing channels i.e. TV, Print, Radio and digital campaigns, there is an increased inclination towards social media, and search engine marketing. For service monetization payment channels, mechanisms and the ad-mediation platforms play a key role. TV is no

longer the only way to make brands, both advertisers and creators are seeing success in resonance through digital programming <sup>15</sup> and thus ad-mediation platforms become critical. Many of the brands have also started reaching to the on-demand content service providers for targeted ads.

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“The advent of OTT players, both domestic and international, is providing consumers with multiple choices around content consumption. We are seeing a shift in consumer’s attitude from content ownership to having easy access to a vast library at any time and place.”

- Shridhar Subramaniam, President India and Middle East, Sony Music Entertainment Inc.



# Prevalent On-Demand Content Monetization Models

The digital on-demand content market is still evolving and the players are experimenting with multiple monetization models, the most popular ones being subscription based and advertisement based model. In India, currently consumer willingness to pay for content is hindered by the rampant content piracy, however, a shift has been observed in the consumer attitude in recent times.<sup>16</sup> This has been due to the various innovative product and pricing strategies adopted by OTT players.

## Players experimenting with monetization models

Users have shown willingness to pay for premium services / content and convenience to use that make better value proposition for them. Players are coming up with hybrid models that provide access to large content catalogue for free and some of the premium content and services are provided only to subscription users. The traction generated by free content is monetized through ad supported models while subscription fees are levied for premium services.

The key differentiator and overall value proposition for consumer is derived from the balance of services and features that are offered to free user viz a viz premium user for the service. Global examples in digital online

music category are Spotify and Pandora. Spotify has positioned itself for premium service and derive more than 90% of its revenue from subscription fees. Spotify has acquired 15 million paying subs out of its 60 million total user base.<sup>17</sup> Pandora on the other hand generates most of its revenue through ads and most of its user base uses the service for free.

In India as well, various models are being tried by on-demand content providers. While currently, most of the OTT players are generating revenue through ad supported models. Players are devising product and service offerings that lure free users to become paid subscribers. To provide experience of premium value proposition many of the players are coming up with trial premium packs. Both Gaana and Saavn which are the leading online music service providers in India, have adopted hybrid monetization models and offer limited period trial premium pack experience to their first time users. Mobile TV and on-demand video services in India that are offered by incumbent DTH players in India use subscription models bundled with DTH subscription. Bharti Airtel launched an OTT online music service that is based on subscription only model and boast the value proposition of bundled data packs for downloading up to 500 songs.<sup>18</sup>

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“Digital music consumption evolved fast from a piece meal consumption model in the form of ring-tones and ring backs onto downloads, and now onto streaming and subscription - reflecting today's consumer reality that rental of music via streaming / subscriptions trumps the ownership of music v/s downloads.”

- Mandar Thakur, COO, Times Music

The key levers that drive monetization in digital space are listed below:

Figure 11 : Digital Content Monetization framework

Dimensions	Key Levers					
Revenue source	Subscription			Advertising		
Subscription considerations	Lever A	Term	Daily	Weekly	Monthly	
	Lever B	Type	Including data	Excluding data	Limited Use	Unlimited use
	Lever C	Structure	Niche content	Limited content	All content on one platform	
Pricing	ARPU			Revenue per Hour		
Usage	Free Subscriber Usage			Paid Subscriber Usage		
Renewal rate	Fraction of Subscribers who renew the Service					
Leveraging ecosystem	Leverage Data Analysis	Partnership Alliances	Deals Sponsorship	Related Products/ Services		

Source: Deloitte Analysis



**Driving revenues through subscription**

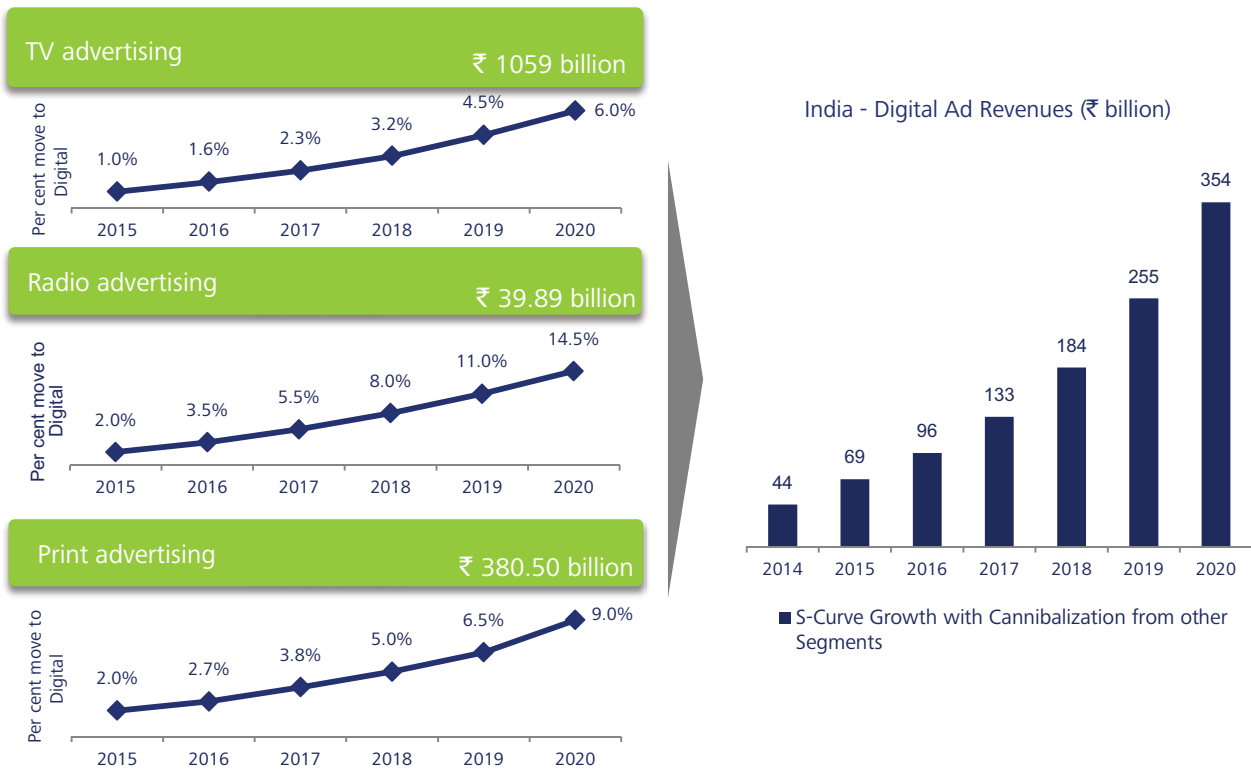
Indian content service providers are trying to drive maximum value from their subscription model by designing their content offering structure in terms of premium content that can be niche or exclusive and the user can pay and watch the content of his interest. They are providing flexibility to pay subscription on daily, weekly, monthly, or long-term basis. These players are trying to find the sweet spot pricing for the value offered with which they can maximize the ARPU and revenues.

**Advertising revenue will shift from traditional to digital**

Similarly, for ad-supported models, there are several initiatives being taken to optimize the revenue per hour of usage. The content players are trying to leverage the wealth of data they have gathered through data analytics and increase ad revenue through targeted ads. They are also creating alliance and partners to acquire new customers wherever they find opportunity to up-sell and cross-sell.

The s-curve growth expectations for the overall digital ad market in India that include probable cannibalization of ad revenues from other traditional segments like TV, radio, and print media indicate the digital ad market size of ₹ 354 billion by 2020. <sup>19</sup>

**Figure 12: Digital Ad market size projections**



Source: Deloitte Analysis

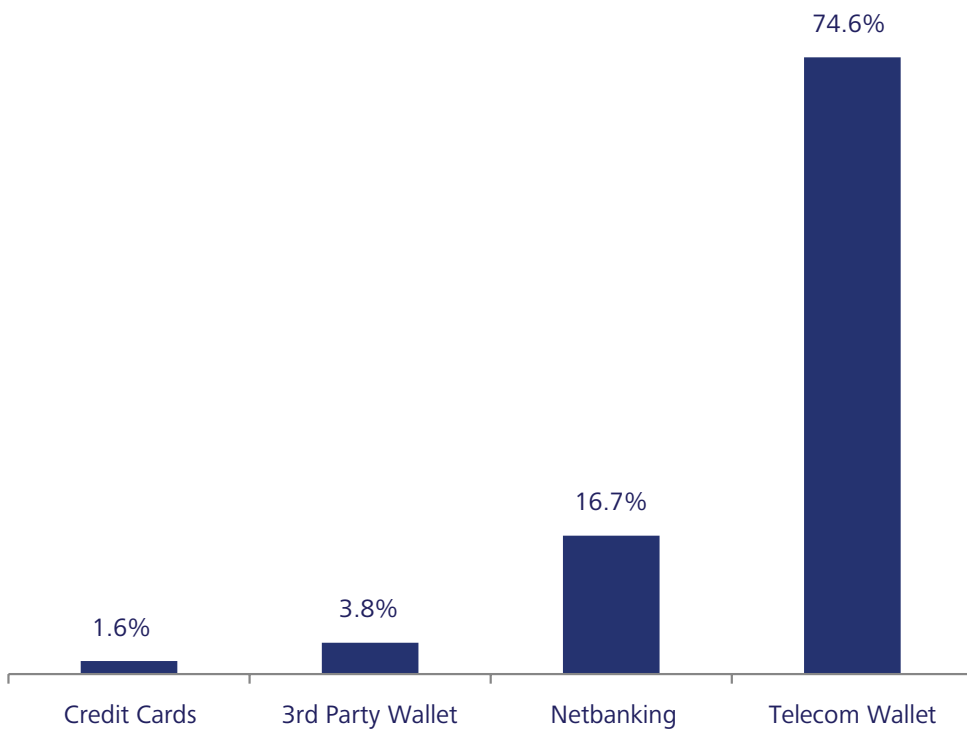
With increasing competition, operations sustainability will be the key success factor in deciding the direction which the industry follows.

**Evolving payment mechanisms will drive on-demand content monetization**

In addition to the different monetization models, payment mechanism is also expected to be a critical component of the subscription model of digital music / video market in India. There are multiple payment

options in market like credit card, 3rd party wallet including mobile wallet, telecom wallet and net banking. Currently in India the penetration of telecom wallet is much higher compared to other payment options hence partnership with a leading telecom provider can provide an edge for players in the subscription-based model. However, OTT mobile wallets are expected to grow at a higher rate and would act as enabler to the content monetization.

**Figure 13: Penetration of different payment methods in India**



Source: Deloitte Analysis

**Regulations impacting subscription and thereby stickiness**

Indian regulations restrict any service provider to auto renew or deduct fees from the customer’s credit-cards and requires a second factor authentication. This poses a challenge in terms of customer stickiness as every time a customer needs to initiate and verify the subscription fee payment. A customer can shift its consumption from one service provider to another.<sup>20</sup> Many players are using carrier billing where they use the customer’s pre-paid or post-paid telecom wallet for realizing their service charges.

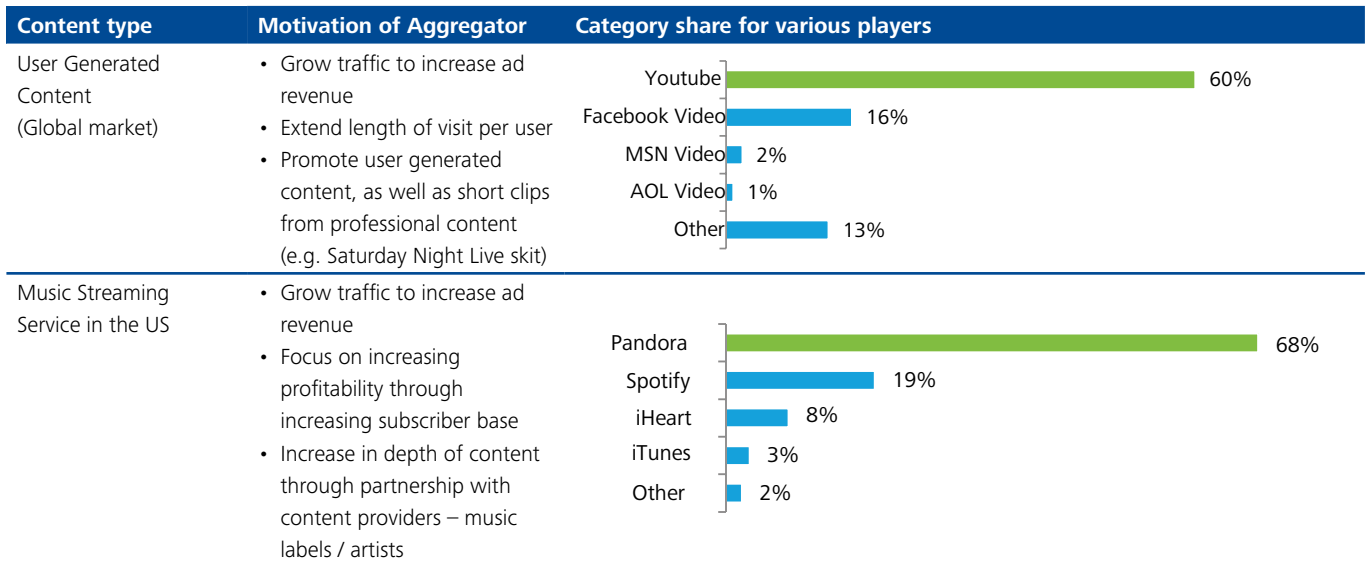
**Winner takes all economics**

Global trends suggest that digital on-demand content market follows ‘winner takes all’ economics and the early movers have significant advantage over the late

entrants. This can be corroborated by the fact that YouTube has a 60% market share globally in user generated content category and 72% share in Indian on-demand video content category. Similarly Pandora has a 68% market penetration in the US music streaming market. The second best players in these markets only have around 10-20% market share. Similar trends are predicted for the Indian digital market where early entrants are expected to develop cost efficiencies and scale which will help them mitigate the revenue and margin pressures. The players who are unable to mitigate these pressures will ultimately drop-off leading to a ‘winner takes all’ market.<sup>21</sup>

Globally, the music industry revenues have remained flat (as on 2013), while digital and streaming revenues have grown phenomenally.

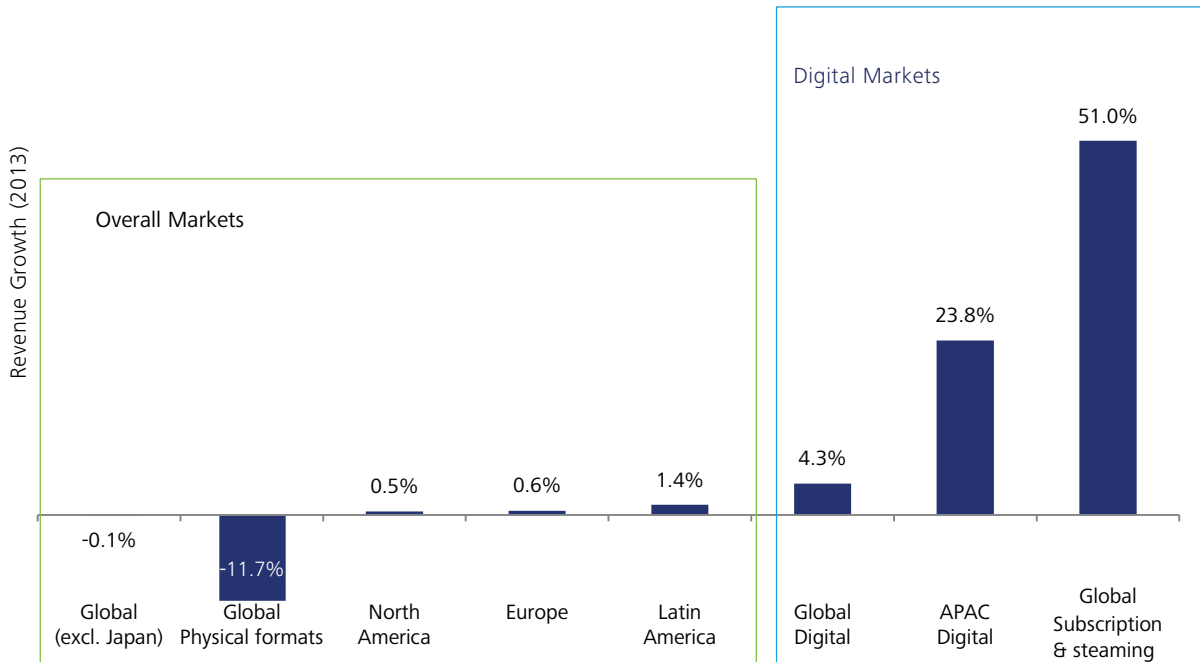
**Figure 14 : Winner takes all economy is prevalent in the digital market**



Source: Deloitte Analysis

# On-Demand Content: Music Streaming

Figure 15: Global music industry growth (2013)



Source: Deloitte Analysis

There is higher growth expected in emerging markets especially, in Asia-Pacific region. APAC music industry revenues approached \$ 450 million in 2014 and are expected to reach beyond \$2 billion by 2020. Streaming

revenues as well as mobile VAS would be the major constituents of the APAC digital revenues.<sup>22</sup> However, streaming revenues will dominate revenues from all other forms of digital formats.

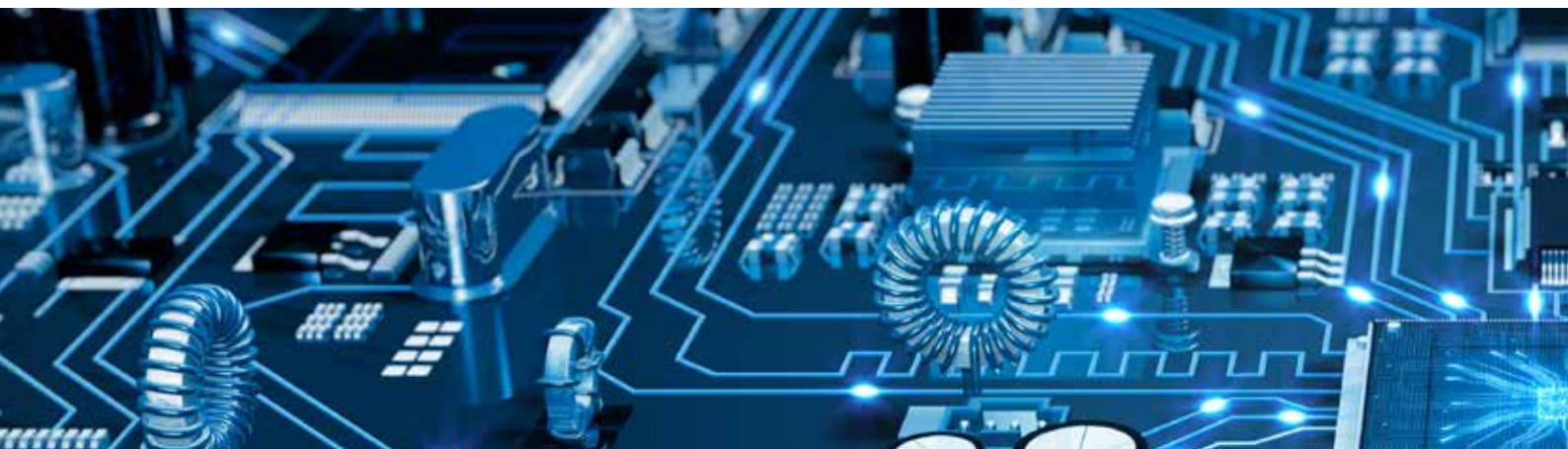
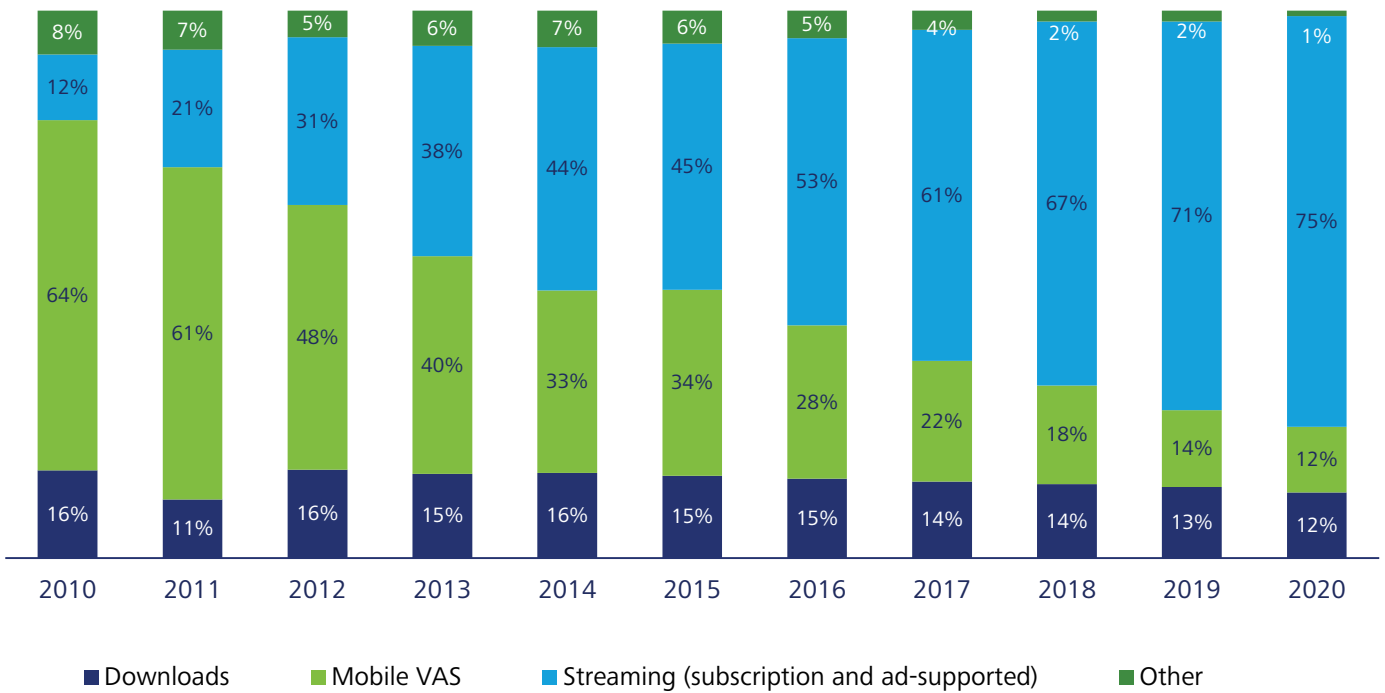


Figure 16: Split of APAC Digital Music Revenue (% by Format)



Source: Deloitte Analysis

In India, music is considered as one of the easiest and most accessible form of entertainment. Population is covered by the radio distribution in India. About 86 cities currently have more than 245 FM stations and more than 800 FM station licenses are planned to be

auctioned in about 294 cities.<sup>23</sup> In large metros, radio listeners spend more than 1,000 minutes per week on an average listening radio. There is demand for all type of music genres in India led by Bollywood, International, regional, folk, classical, etc.



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“Radio is about music, whether it is on FM or digital radio. People listen to songs, not the technology. As long as we hear the music – old and familiar, or new and surprising – it doesn’t matter where it comes from or how it comes to us. Sixty years ago, they had large boxes in the living room that played Pat Boone and Pankaj Mullick. Thirty years ago, radio was sleek plastic you could carry around. Now it is FM on your cell phones. Pretty soon – and I don’t know how soon – it could be digital FM or streaming audio, or something that hasn’t been invented yet, playing off your iWatch or wedding ring. And I guarantee this: you won’t be thinking, “gee whiz, look at that technology”. You’ll be saying, like the Count in Pirate Radio, there will always be poverty and pain and war and injustice in this world, but there will, thank the Lord, also always be... the Beatles”

- Nisha Narayanan, COO, Red FM

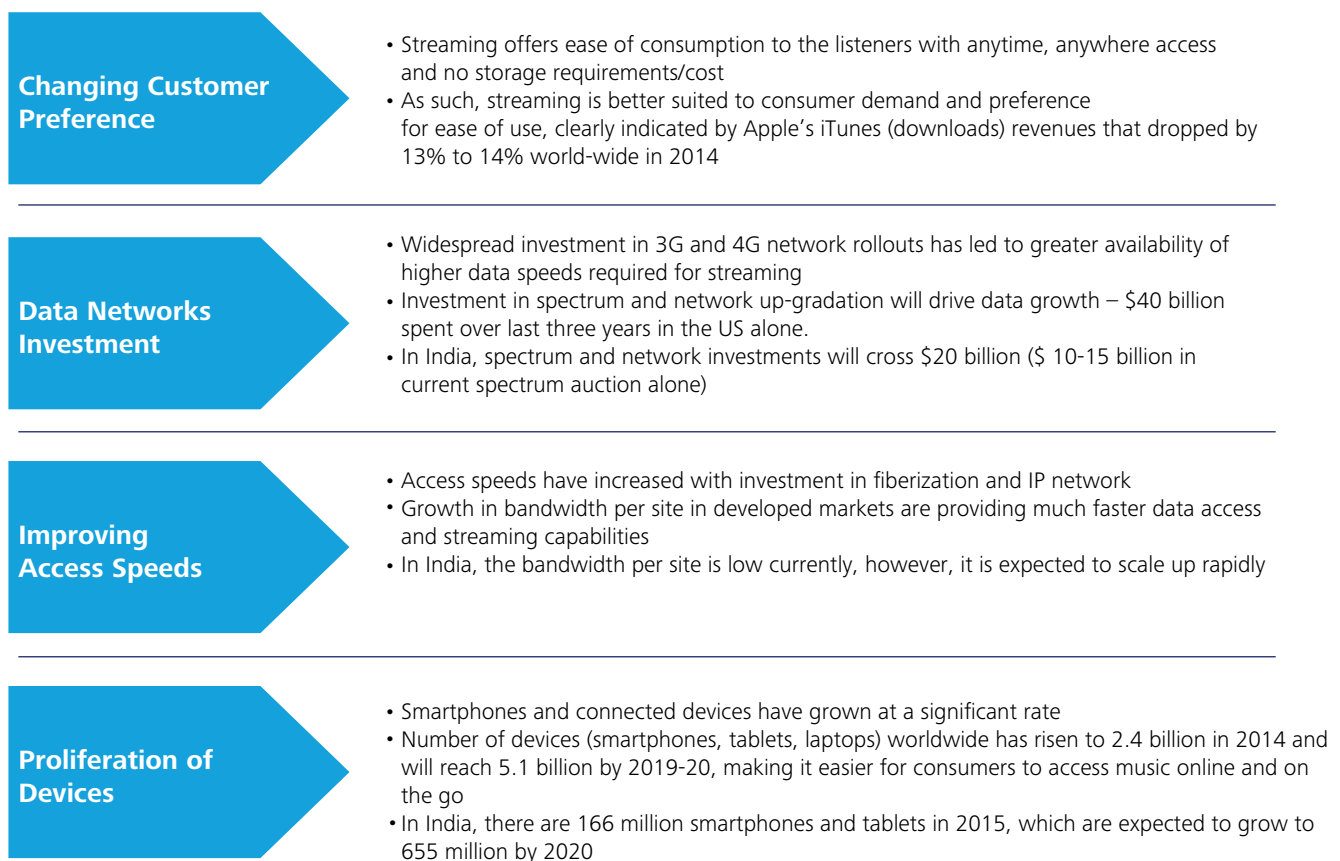
As evident from the global markets, digital is the future of the Indian music industry. Currently, Indian music industry is undergoing an evolution towards the digital delivery platforms and digital consumption habits. While the overall music industry in India has grown to ₹ 10.7 billion in 2014 <sup>24</sup> at a CAGR of 5.5% only over the past four years, it is expected to grow at a CAGR of more than 24% till 2017 mostly driven by the digital music segment.

While the digital music segment in India has been dominated by CRBT in the past few years, new formats like streaming and downloads are getting high traction among consumers. Currently, downloads and streaming contribute almost equally to the overall digital music revenues; however, the streaming revenues are growing

much faster. Globally as well, download revenues have seen a fall. iTunes saw a fall of around 13-14% in 2014 from music downloads sale worldwide, at the same time streaming revenues saw a major jump. <sup>25</sup>

Popularity of music among Indians can be corroborated with the number of successful music channels on Indian television. There are different channels which play different genres of songs catering to multiple sub categories of consumers. 9XM tops Indian music viewership. <sup>26</sup> The Indian version of MTV, MTV India, focuses on music, reality and youth-centered programs. It features music encompassing all genres of music which has enlisted it amongst the most successful and popular music channel of the country. VH1, ETC and channel V are some of the other popular music channels in India.

Figure 17: Increase in Online music adoption

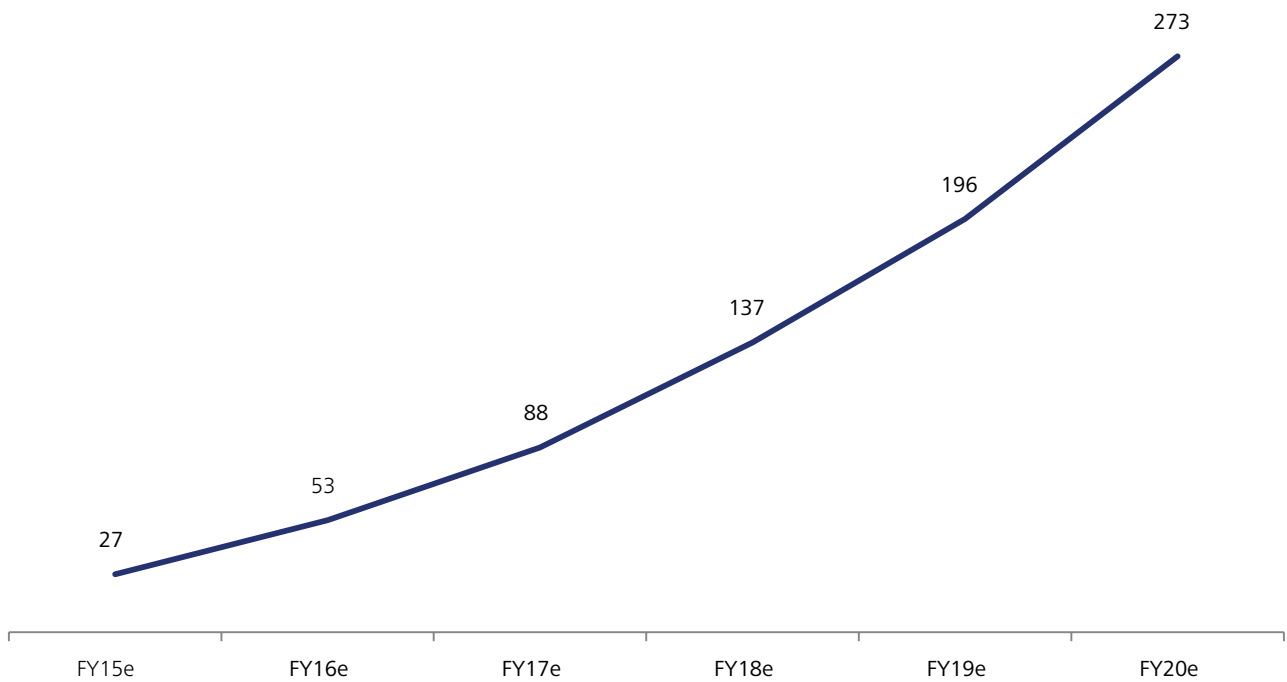


Source: Deloitte Analysis

With access to compatible multimedia capable devices i.e. smartphones, tablets etc. and improved network bandwidths (3G, 4G coverage), a complete new generation of online music listeners has emerged in India. There were an estimated 27 million online music users in India in March 2015. The number of online music listeners is expected to grow to 273 million by

March 2020. Most of this growth would be driven by youth in the age group of 18 to 35 years and almost 85% of these users would access the music through connected mobile devices.<sup>29</sup> This would be driven by the preference of consuming the music services anytime, anywhere.

Figure 18: Online Music Users in India (in million)



Source: Deloitte Analysis

The consumer traction for on-demand music is more than promising and players are using a mix of business models for monetizing this opportunity. Two most promising models that are emerging are ad-supported content delivery and subscription for services. There are global examples of both ad-supported (Pandora) and subscription (Spotify) models that have created large scale of operations.

Current penetration for subscription music services in India is less than 1% among all online music listeners.<sup>30</sup> Going forward it is expected to increase as the propensity to pay among the customers for using premium services increases and the access to various payment

mechanisms improves.

At the same time leading brands will factor mobile as a key platform to their brand advertising strategy and plan for the year with allocations to mobile channels that can create an immersive brand experience.

India will see the evolution of the ecosystems around both subscription and ad models; however, most of the music service providers are adopting hybrid models. These players are providing a huge music library for free to the consumer to generate traffic and monetize through ads. While providing select content or services to charge subscription premium.

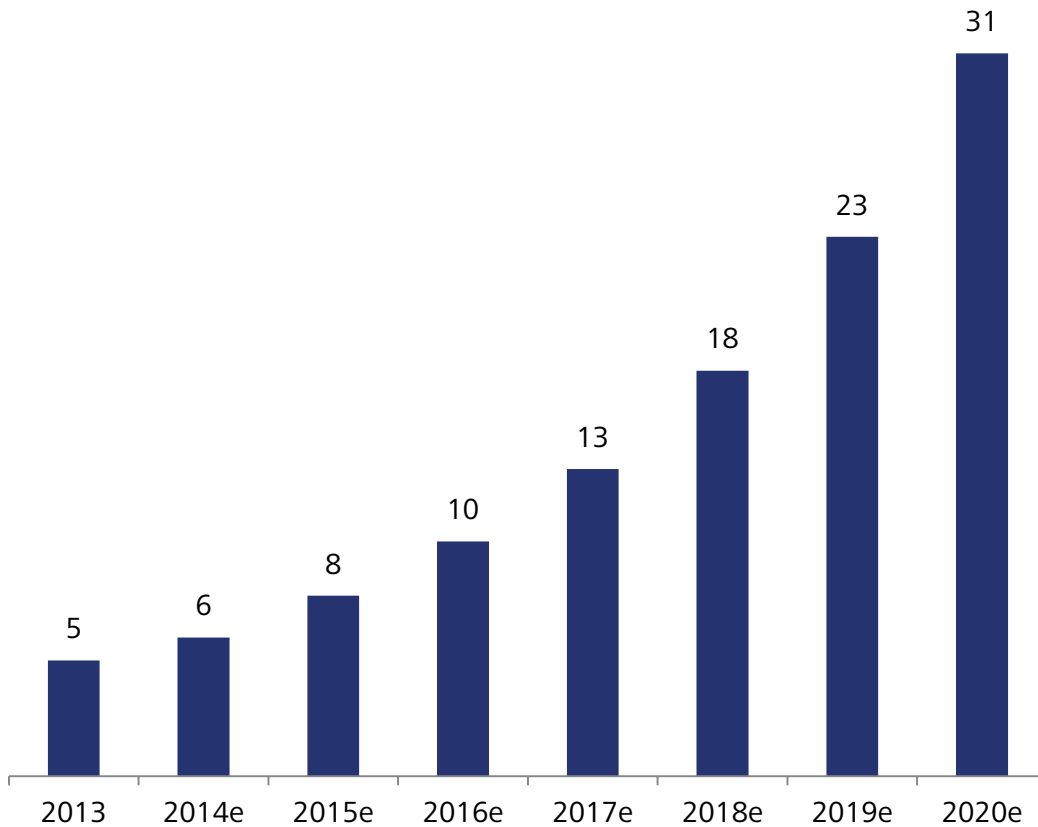


**Both Ad & Subscription Revenues in Digital Music**

Industry would grow exponentially  
Digital music industry ad revenues are expected to mirror the growth rates to be seen by total digital ad revenues in India by 2020. These revenues would come majorly from display ads followed by video and audio ads. At the same time, the paid subscriber penetration among online music users is expected to reach 10-15%.<sup>31</sup>  
Contribution from digital music segment to overall

Indian music industry revenues is expected to grow from 55% in 2014 to 72% in 2017<sup>32</sup>. Further, with that growth digital music industry revenues including streaming, downloads, and other formats revenues and subscription and ad revenues are expected to cross ₹ 31 billion by 2020.

**Figure 19: Indian Digital Music Industry Revenues ₹ (billion)**



Source: Deloitte Analysis

### Key trends that emerged in digital on-demand music in 2014

- **Demand for regional content on rise:** While music of all genres finds its demand in India, most heard and accessed music is Bollywood followed by the vernacular and regional music. This is also corroborated with the fact that number of regional films (Tamil, Telugu etc.) being released every year are fast catching up with Bollywood Hindi movie releases. According to a report released by Hungama, Bollywood music accounted for 81% of its total digital music consumption, while International, South Indian, and Punjabi music accounted for 10%, 4% and 2.2% of all digital music consumption, respectively. <sup>33</sup>
- Shift towards subscription for premium services like offline and high-quality downloads was observed in 2014. Though subscription users were very less as compared to the free users, the average revenue generated per user from subscription service was much higher.
- Uptake of regional music was seen during last year. While Hindi and English music dominated, regional music showed higher growth in terms of usage and preference. <sup>34</sup>
- Telecom operators acknowledged the digital music opportunity. Leading telecom player Vodafone already had its music service. Bharti Airtel also launched its online music streaming app Wynk which is an OTT app and does not require a user to be Airtel's customer
- Players like Hungama and Saavn attracted investments to fund the operations and expand customer base. Dhingana was bought by Rdio within two months it shut down its operations

### Online Music Challenges and Player Initiatives

As monetization of digital online music is under evolution, cost of serving for these services also poses a challenge. A large part of the revenues goes to content labels and rights publishers, thus these services require very high scale to fund the operational costs. Most of the players are coming up with innovative models to acquire customers and scale up fast. Saavn has partnered with e-commerce player Snapdeal, Gaana partnered with PayTM while Hungama tied-up with Airtel <sup>35</sup> for customer acquisition leveraging the cross-selling opportunity.

Piracy is another area which hinders the customer's willingness to pay. However, the ease of access and popularity of digital platforms like Gaana & Saavn with younger generation has helped reduce the piracy to some extent. <sup>36</sup>

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“The biggest trend emerging in the music industry in India is that consumption is rapidly shifting to mobile devices. At Gaana, over the last one year, we've seen an accelerated growth in adoption, engagement and consumption on mobile devices. The growth of streaming services is indicative of consumers preferring legitimate streaming over pirated music, primarily, for a superior, convenient, multi-device hassle free experience. Access to millions of songs, anytime, anywhere is the 'in' thing with today's digital consumer.

Digital streaming is Music Industry's biggest tool to combat piracy; it presents an opportunity to expand the overall pie for the industry. The digital streaming industry in India is in its nascent stages and as the digital ecosystem in India evolves, with higher smartphone and internet penetration, the category is expected to witness sharp growth over the next 5 years.”

- Pawan Agarwal, Business Head, Gaana

Digitization of old content is still a challenge. <sup>37</sup> While new music releases are easily available in digital form, a large part of the old and popular music content is not yet digitized. However, most of this content is expected to be digitized within the next 1-2 years. High dependence on carrier billing for subscription monetization is another challenge and is expected to remain for next few years. In India, cost of collection through carrier billing is very high and ranges from 30%

to 60% which directly impact the subscription revenues for online music service providers. Most of the players are focusing on acquiring subscriber through other payment modes like credit cards and mobile wallets. Differentiated service is another challenge. Players are experimenting with personalized offerings, curated playlists and genre specific radios in absence of content exclusivity.

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“The consumption of digital content in India is exploding right now, as Indians continue to opt for smartphones in the hundreds of millions. We'll likely see our next phase of user growth come from Tier 2 & 3 cities across India. We are just getting started here.”

- Mahesh Narayanan, COO, Saavn



# On-Demand Content: Video Streaming

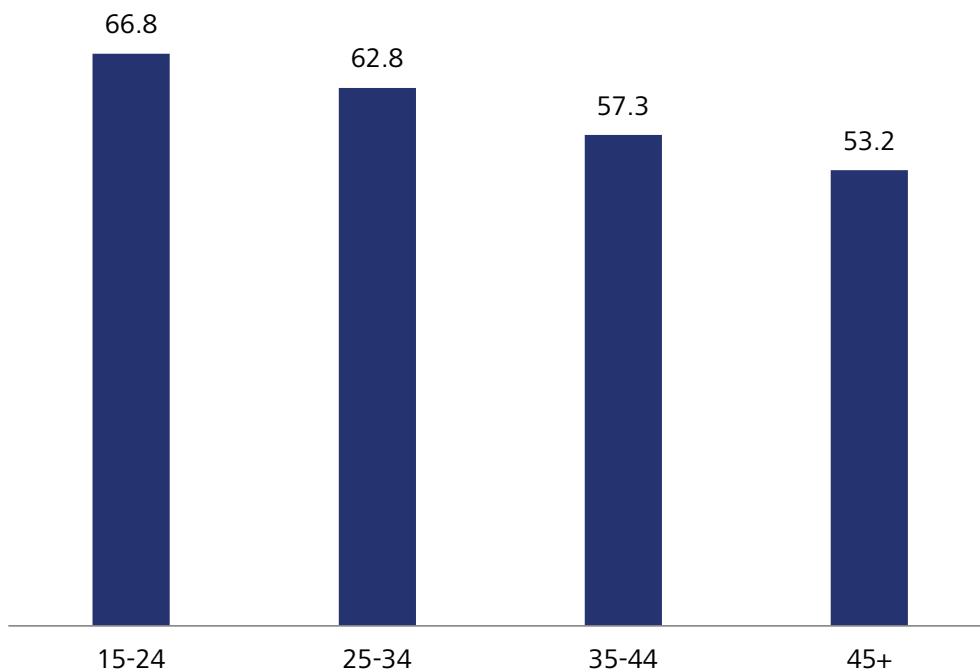
Like music industry, video industry is also observing shift towards digital formats. Traditionally, the highest video consumption has been happening on TV; however with the faster growing internet penetration and access to multimedia devices, more and more time is being spent on consuming digital videos. The traditional form of TV viewership is giving way to the new segment of consumers who are choosing to consume multimedia content on-demand. This has led to a sharp increase in video traffic consumption. There were 31.9 million unique online video viewers in India in March 2011 who watched 1.86 billion videos; this number of online video

viewers increased by 69% to 54 million in March 2013 who watched 3.7 billion videos<sup>38</sup>. This number of online video users is estimated to have crossed 200 million by the end of 2014.<sup>39</sup>

### Higher online video consumption among youth

There is higher traction of online video among young internet users. In July 2014, a user in age group 15-24 years watched 66.8 online videos on an average while user above 45 years of age watched only 53.2 videos in that month.<sup>40</sup>

Figure 20: Average monthly online video views per viewer by age group (July 2014)



Source: statista.com



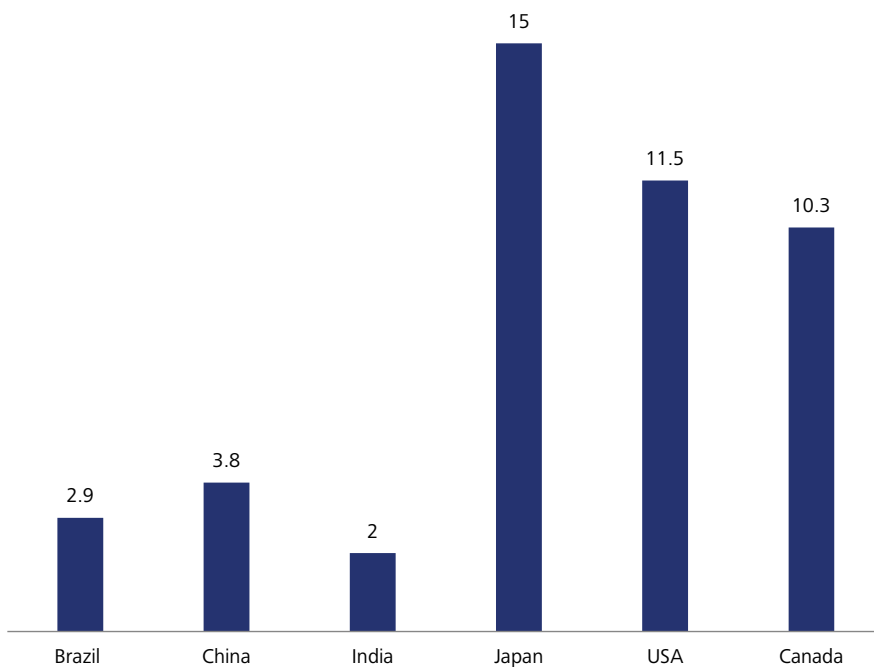
Further, in Indian videos shared on social media get very high traction. About 65% of Indians shared their videos through mobile as compared to 53% globally during 2013. <sup>41</sup> This has led to a speedy growth in user-generated content platforms. With that high usage of online videos total Internet video traffic in India is expected to be 72% of all Indian Internet traffic in 2018, up from 45% in 2013. This traffic would include online streaming services like YouTube, VoD (Video on Demand) services such as Netflix and mobile TV services like nexGTV, Ditto and TataSky etc. As most of Indian internet users will access the internet through mobile devices, a large part of the video traffic is expected to flow through mobile devices.

Digital Video subscription market is estimated to be around ₹ 35-40 billion by 2020 at a monthly ARPU of ₹ 60 with ~10% paid penetration among online video users. Further, online video services would garner around 5-7% of the overall digital ad spend by 2020. <sup>42</sup>

**Digital online video consumption limited only by internet speeds**

The average internet speed in India is much lower than that in most developed countries. With better networks and technology this is expected to improve. A linear relationship between the internet speeds and video consumption is observed across the countries. In India, an increase in the internet speed is bound to increase the video traffic in India.

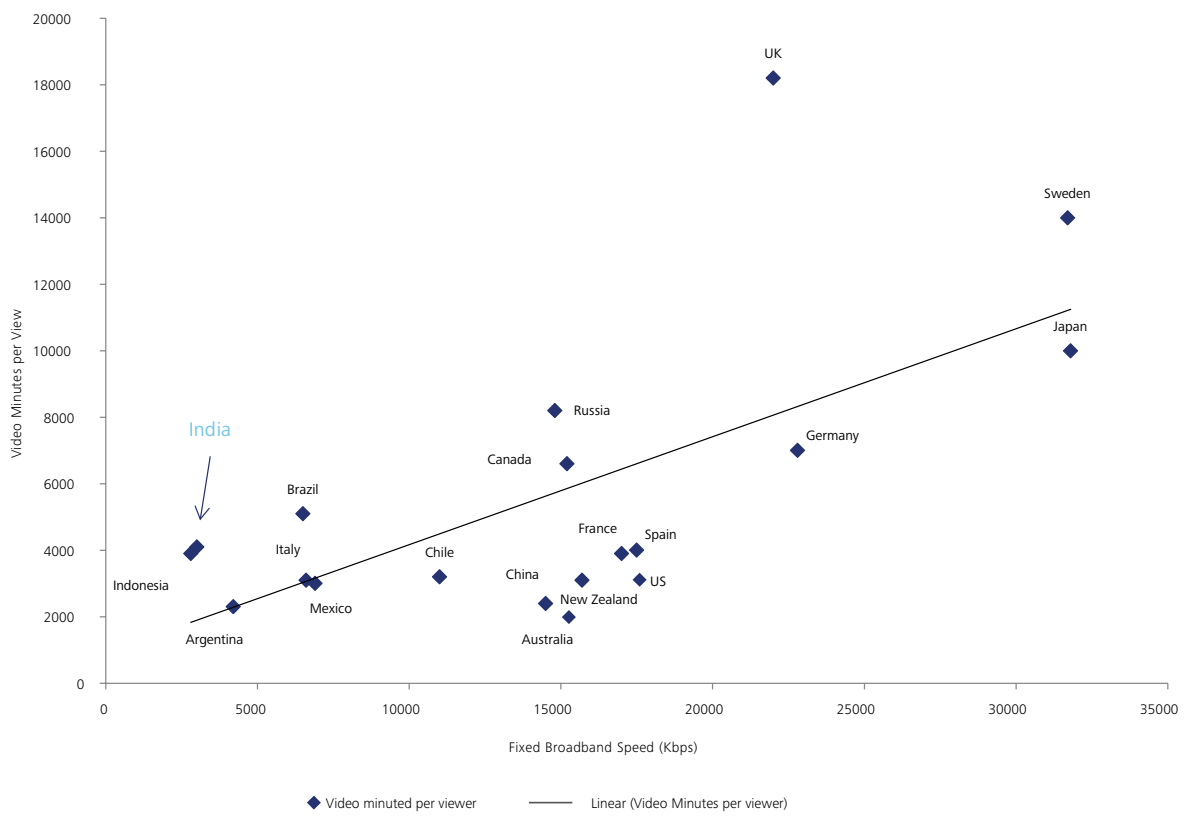
**Figure 21: Average Connection Speed in Mbps Q3'2014**



Source: AKAMAI



Figure 22: Indian online video consumption is bound to increase with increasing internet speed



Source: Cisco VNI report, 2014

High-definition and ultra-high definition video content usage is expected to increase exponentially and its combined share is expected to be 21% of Internet video traffic in 2018, up from 4.5% in 2013. <sup>43</sup>

#### **Leading players are leveraging targeted video content and multi-screen offerings**

Indian consumer prefers both long form as well as short form videos online. Within content categories movie is the most preferred, irrespective of age, gender, and region and also enjoys a high willingness to pay subscription fees. Moreover, fresh video content especially, recent movies enjoy a premium over other content. While Indian women prefer music videos as

their second option, men are mostly inclined towards Sports. YouTube gets around 60 million unique visitors every month. About 63 per cent of Indians using YouTube watch music videos and about half of them watch TV shows and film trailers.

Some of the niche video content categories within infotainment were found to be preferred across age, gender, and regions in India. Being a large and diversified country in terms of demographics and languages, India has specific regional demand for localized content. A few content categories like Hindi TV programs, Reality TV, Travel, Fashion, and Cookery are preferred more by women as compared to men. <sup>45</sup>

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“In this OTT on-demand content business, while overall service offering package including user interface, accessibility etc. definitely play its role in creating an edge over competitors, content remains the key. In coming times, with rapid 3G adoption and 4G on the anvil, we will see more and more original content produced for online consumption especially for second and third screens.”

- G D Singh, CEO & Director, DigiVive

According to a report released by Vuclip, 80% of its consumers report watching videos on their mobile devices at least once every 2-3 days, with more than half opting to watch daily.<sup>46</sup> The mobile phone has emerged as a strong alternative to traditional entertainment media like television, as more than two-third consumers watch videos from home. A typical smartphone user in India is spending significantly more time on their smartphones (~150%) as compared to TV.<sup>47</sup> However, addition of screens has only increased a user's viewing time.<sup>48</sup>

While more and more users prefer consuming video on second and third screens, content players are coming up with service offerings that are platform-agnostic and

work across platforms and screens. Many traditional TV channels and channel aggregators like ZEE TV (DittoTV), Star TV (Hot Star), TataSky, and Airtel DTH have entered into the mobile TV market in the last 1-2 years. In addition to these large established media players, new players like NexGTV and Mundu TV are also trying to disrupt the TV viewing experience by using technology and the mobile platform to deliver on-demand TV content. Although these new players are trying to disrupt the Indian digital video delivery market, YouTube, with its user-generated content model, still maintains its early-mover advantage and is the market leader with more than 50% share of all the videos watched online in India.

**Figure 23: Key Levers for Digital Video Industry**

Dimensions	Lever	Options			
Product	A Device	Desktop/ Laptop	Tablet	Smartphone	
	B Content	VOD		Live Video Channels	
	C Quality	Bit Rate	Availability and Latency	User Interface	
	D Service	Download/ Offline	Side-load	Streaming	Broadcast
Customers	A Usage	Frequency	Duration	Location	
	B Segmentation	Geographic (Rural / Urban)	Income (Rich / Poor)	Age (Young / Old)	
Operations	A Monetization	Subscription	Advertising	Hybrid	
	B Content Access	Create	Buy Mobile / Online rights	Partnership	
	C Scope	Content Creation	Aggregation	Distribution	Device
	D Go to Market	Direct to Consumer	White-label (Service Provider)	White-label (OEM)	

Source: Deloitte Analysis



While most of the players have their products customized for both laptop and mobile usage, players like vuclip are betting on mobile growth and focusing mobile as a delivery platform. Similarly different players have customized their product to suit their content strategy and service offering. These players also need to pay attention to the usage habits of their customers and segment them on the basis of their demographics, paying capacity and geographical presence. Operation viability is another challenge for the digital video industry and players are using different monetization methods, content access strategies, go to market strategies and operational scope to arrive at the most feasible operational model.

#### Key developments in digital video space in 2014

- Most of the DTH players entered in the on-demand as well as small screen video space by launching apps that allow their users to watch videos live or on-demand anytime, anywhere
- Movie Studios, television networks, and smaller production houses have started to look digital space as a key constituent of their distribution channel
- Drop in internet surfing charges has also made internet surfing cost efficient for users in India and they are using video services online
- Many content players are trying to acquire and create

content suitable to second and third screens to leverage the digital video opportunity <sup>49</sup>

- 2014 has also seen the growth in popularity of YouTube as a platform and the transformation of some channels into a household name like AIB and The Viral Fever. It has led the VoD trend in India with consumers demanding more of anytime, anywhere content rather than appointment viewing as offered by TV <sup>50</sup>

#### Challenges in digital video industry

- Even though data consumption is on the rise, the connection speeds are much lower than most other countries in the world. This is currently the biggest roadblock for the digital content industry in India. The adoption of 3G / 4G technologies is expected to increase the connection speed in India, which is further expected to increase the digital video content consumption
- The easy availability of pirated digital content in India raise viability concerns for the subscription-based monetization model in the digital content market. However, ease of access, bundled services, and other product offerings will create a positive eco-system towards subscription-based services



# Conclusion

More and more media consumption is happening on digital media, and people are more time on digital media as compared to traditional media. This increase can be credited to the improvement in mobile devices technology and internet connectivity, which has provided the viewers with the option of accessing digital media content on the go. Audio and video have emerged as the leading online traffic generators and are expected to increase their share of the pie with increasing internet penetration and service adoption. Marketers are shifting budget spends in tune with the shift of viewer preference towards digital media from traditional media.

India has the largest young population in the world which is driving the digital media consumption in India. Internet traffic in India is being driven by mobile internet users. The major reason for this will be the availability cost efficient smartphones in India, improving 3G and 4G internet coverage and fast reducing data prices. This has given rise to the demand for on-demand digital entertainment services like audio and video streaming. However, monetization models for these services are still evolving. Ecosystem players are struggling to identify the correct models that can be scaled and are experimenting with various levers like price points, value offerings and mixed model approaches to arrive at the most feasible option. Leading digital media players have adopted hybrid models where they provide a lot of content free of cost but charge for their premium content.

Music streaming is emerging as the preferred consumption mode in India; the revenue from downloads are on the way down and streaming is revenues are growing fast. The new music listener generation in India prefers anytime, anywhere and on the go music in comparison to carrying their music with them. The subscription model is expected to increase its reach as the listeners' propensity to pay for the digital content improves with time. However, the ad based music service would also remain key contributor to the overall revenues for digital music industry.

Video industry in India is also seeing the shift towards digital content. Younger demographics are guiding the video consumption in India. With improved network speeds, demand for HD and UHD video content is expected to rise along with standard definition video streaming online. Like digital music players, digital video players are also adopting both subscription and ad monetization models and offering personalized offerings to maximize adoption.

Going forward, digital audio and video on-demand services will see a lot of activity. As this space heats up, getting business model right will be critical for success.

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