



Digital world

The eyes have it

How to increase the value of
local content in a digital world

The regional media industry remains in a phase of development, especially when considering the impact of social media during the Arab Spring. While public and private organizations have undoubtedly come a long way in the development of more sustainable media/telecommunications systems, thanks to better funding, better training and significant infrastructure investment, stimulating the production and monetization of local content in the Arab world remains a key regional challenge.

Monetizing the local content

Monetization on most media platforms is largely dependent on advertising, which is currently heavily undervalued in the region. Pay models also present big opportunities for further development.

Increasing the value of advertising

Based on the number of estimates, including the Arab Media Outlook 2009-2013, the total advertising market in the Arab region¹ in 2011 is valued at around USD 5.5 billion.² While the region is expected to experience strong growth, benchmarking the regional market against international standards suggests that its value continues to remain relatively low. Going forward, growth in advertising should be led by a strong increase in 'digital' (online and mobile) advertising and, to a lesser extent, traditional platforms.

There are many issues around advertising in the region, but it is generally agreed that the lack of measurement systems, the technical hurdle for advertisers to target national viewers on Pan-Arab satellite TV and the limited transparency in the market have been overriding factors contributing to the low value of advertising by preventing platform owners from providing provable return on investment (ROI). Thus, digital platforms, which by their nature offer advertisers a more quantifiable ROI, have a very strong future in the media industry – perhaps more so in the Middle East

North Africa (MENA) region than in other markets where traditional platforms are able to provide clearer user/ viewer statistics. As such, digital technology could present an opportunity for some media sectors, which have not proven successful on traditional platforms in the region (e.g. music) to bypass those platforms altogether.

There is also the potential in the region to leapfrog onto the digital platform from analog. Since the MENA region never really experienced the lucrative benefits of the analog industry that were witnessed elsewhere, it has an opportunity to create a new business model on digital platforms. By focusing on the new areas of value in the market, such as live programming and digital content, MENA media organizations could pave the way for a strong digital future.

Increasing the value of pay-TV

The low value of pay-TV in the Arab world is the result of low penetration levels, linked to the prevalence of piracy in the region. Pay-TV adoption in the MENA region is one of the lowest in the world, in both developed and emerging economies (5% penetration in MENA vs. 53% in the U.K., 91% in the U.S. and 14% in Brazil). Although industry players are taking action to overcome the obstacles – for example, the Orbit Showtime Network (OSN) recently upgraded its decoders to High Definition (HD) to enhance Set Top Bob (STB) piracy protection – there is still a long way to go. OSN is optimistic about the results of the initiative, expecting 25% growth in subscriptions in 2011.

In this context, it is clear that piracy continues to present a major obstacle in effectively monetizing content. Indeed, the pay-TV industry in the region is, in some markets such as Lebanon, a lucrative one, with very high levels of adoption, but the money is directed at the pockets of providers of pirated services, rather than legitimate commercial players.

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In spite of the challenges, many new features have been introduced to the region, such as HD channels, Video-on-Demand (VOD) services and 3-D TV. These features are all expected to enhance the value of pay-TV over free television in the eyes of consumers and contribute to the growth of the industry. Telco players also have an important role to play in the pay-TV industry through their Internet Protocol TV platforms, supported by FTTx plans in various countries. By bundling pay-TV with other services, such as broadband and fixed telephone lines, pay-TV can become a more attractive package for consumers.

Revenue generation through digital platforms

There is a significant role that digital platforms and new technologies can play in the development and monetization of local content in the region.

High demand for digital content

The MENA region displays very strong demand potential for digital content. Indeed, the entry of major international players into the region, such as Yahoo!'s acquisition of regional player Maktoob, Google's increasing presence in the United Arab Emirates, Egypt and Saudi Arabia, or the acquisition of regional player Gonabit by Livingsocial, confirm the existence of significant opportunities in the market.

In terms of consumption, the region is showing some impressive fundamentals. Saudi Arabia, for instance, is one of the largest markets for YouTube playbacks on mobile worldwide. Recent research across four leading regional areas confirms that even before the Arab Spring, the usage of social media was already particularly high in the region, with nearly 70% of consumers in key Arab markets using social networking sites.

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Not only social media, but the wider digital space, offers plentiful opportunities for media players in the region to extend their existing content to new platforms and to develop new content for these platforms.

Opportunities for local players

The online world has historically, been fuelled by entrepreneurs in many international markets and the MENA region also boasts some examples of successful online start-ups. These success stories present a good opportunity to draw valuable lessons from the regional online market. Localizing the content as much as possible and having an open environment to operate in are two of the key success factors for the rise of successful online companies in the region.

Furthermore, online and mobile devices can provide new platforms for the exploitation of existing content owned by producers and broadcasters. Hulu in the U.S. is a case in point. The joint venture between NBC Universal, Fox and ABC is the most successful example of a collaborative online VOD concept, boasting nearly half a billion U.S. Dollars in revenues in 2011 as well as advertising revenues per TV series episodes higher than on American cable TV. Hulu has further grown its top-line by developing a hybrid 'freemium' model, with a mix of free and paid content, including a USD10 subscription, in order to maximize its returns on the site.

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In the region, a number of media players, either start-ups or established players, are embracing the trend in online VOD as shown in the exhibit below.

In this context, there exists a strong debate over whether consumers in this region are indeed willing to pay for content and whether a ‘Hulu-type’ model could work. On one hand, there has always been a sense of entitlement to content, largely due to the abundance of piracy; on the other hand, there is an urgent need to find the right content that consumers will be willing to pay for – that is, providing a premium to the consumer that is worth the extra money. By this token, a ‘freemium’ model could work well in the region and the industry could benefit from players experimenting with this model further on digital platforms.

There is also support from regional government initiatives in providing funds for digital entrepreneurs, as for twofour54 and Ibtikar in the UAE, Oasis 500 in Jordan, and the digital cluster of iCTQATAR among others.

Sample of regional online video offerings (partial list)

Name	Language	Model	Genre	Ownership
Istikana	Arabic only	Free	Drama, cartoon, theatre, comedy, religion	Arab media network
Forga	Arabic only	Free	Movies, series, trailers, video clips	Active digital development
Shofha	Arabic and English	Paid	Movies, live TV, series	Linkeddott net, DVD quality
Shahid	Arabic only	Free	MBC content: movies, series, TV shows	MBC
Aljazeera	Arabic and English	Free	Live TV, news and sports broadcasts	Aljazeera
TE live: cinema	Arabic and English	Various	Movies and series	TE data

- Both rights owners and content aggregators are increasingly offering online video to consumers in the Middle East.
- Business models are so far mostly advertising-based, but if international trends are to be replicated, freemium models could soon be introduced.

Source: Informa, company websites, Deloitte

The battle for mobile content revenues and possible cooperation models

The region is witnessing strong growth in mobile broadband. This is confirmed by the launch of the LTE standards commercial services in the region (UAE, KSA) and the increasing number of smartphones and now, tablets.

The adoption of these broadband mobile devices is accelerating the all-digital media consumption transformation. In fact, in mature markets today, users spend 50% more of their time browsing mobile broadband than reading newspapers. As mobile broadband penetration increases in the region, revenues from mobile content look set to rise.

In theory, with better devices, new services such as 'augmented reality' and the increasing penetration of mobile broadband, mobile advertising has the potential to grow substantially and become viable competition for advertising dollars. In practice however, the battle for funding digital content (both online and mobile) remains a tough one between rights owners and network providers. Telecom operators are urgently looking for broadcasters to partner with on digital content, as seen with the successful case of the Emirati telecoms company du and Eurosport on Eurosport Arabia. Most telco players currently lack the skills, not only to produce content themselves, but to market that content effectively. They have a strong need to partner with broadcasters and producers on digital content.

There is an increasing number of government-sponsored initiatives in the Arab market in this space, including AppsArabia of twofour54, Mobily Developer's Community in the KSA and Itida in Egypt.

There seems to be a strong opportunity for partnerships between content providers and telco operators, but it is not one without risk

Meanwhile, broadcasters feel that, given market conditions and the balance of power between themselves and the operators, they are in a difficult position to be taking risks to invest in digital content.

Although there are some strong differences in perspectives between various players in the value chain, there seems to be a strong opportunity for partnerships between content providers and telco operators, but it is not one without risk. If the region is to increase the revenues generated from mobile content and identify the best model for revenue sharing, it may require some initial 'experimentation' by innovative players, as has been seen in other markets.

by **Santino Saguto**, Telecommunications, Media and Technology (TMT) leader, Deloitte in the Middle East

Endnotes

1. Includes 15 key Arab markets (Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE, Yemen) and pan-Arab advertising
2. All advertising figures represent net revenues after discounts and are based on a combination of external sources (e.g. Zenith Optimedia), industry interviews and internal analysis