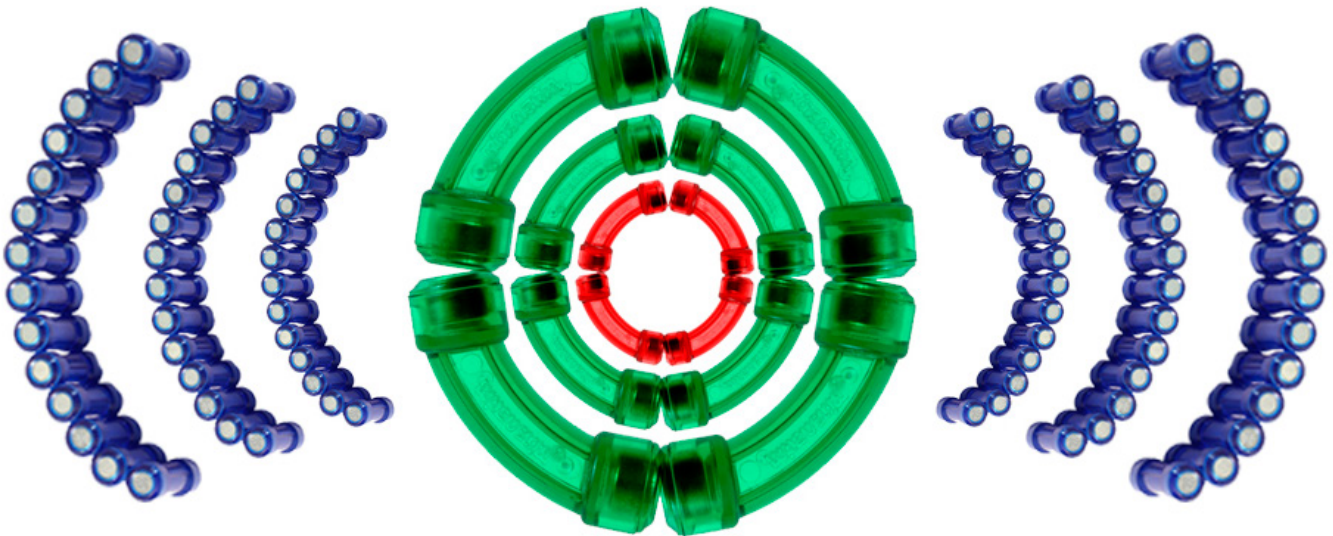


Television's business model Fit for a digital world: Middle East perspective



Foreword

This report assesses television's current performance and outlook given the following developments:

- **The rise of subscription video-on-demand (SVOD) providers:** will the broadband networks enable the disintermediation of the traditional ad-funded or pay TV broadcaster?
- **Sports:** does the rise of the Internet and the abundance of sports related information available from the Web, challenge television's primacy as the principal source of premium sports content?
- **Video clips:** as the most popular clips now attain 'viewing figures' in the billions, is short-form video content finally toppling the traditional (thirty or sixty minutes) program length?
- **Innovation:** technology companies seem to dominate when it comes to innovation, launching a range of headline-grabbing products and services. Today, few TV broadcasters have sizeable research and development departments. Can the TV industry compete in the race to innovate?

Deloitte's assessment of each of these areas suggests that television remains in fine health, and its near-term outlook remains positive. SVOD is much smaller at less than 1 per cent of the world SVOD market, but is growing much faster. Premium sports in the region are set to outperform global sports in terms of growth (not in value as American and European sports will retain the largest share) for the second year running. YouTube has broken the ice for short form in the region but long-form still remains king. And in innovation, the GCC region's unique demographics, high smartphone penetration and engagement with social media is driving innovative approaches to TV content idea generation, production and distribution. Television has fared positively in an ever-changing digital environment.

Subscription video-on-demand: a complement, competitor and a channel

The Middle East SVOD market is much smaller, but expanding much faster compared to other markets

Even though the Middle East is considered to be a high growth market, subscriptions for SVOD services significantly lag behind other more established Western markets. The challenge remains that the SVOD offering in the region is as yet limited, especially when comparing the size and quality of the library of local providers with the likes of Netflix or Hulu. With around 90-95 per cent penetration of free-to-air TV channels across the region, there is also a considerable amount of free content available.

In line with global trends, SVOD's regional positioning is also more complementary than competitive

Effectively, SVOD in the region can indeed be a complement, competitor and a channel. IPTV players (i.e. telecom operators) and pay TV operators already offer SVOD services as an add-on to their overall service packages, relatively new SVOD providers such as icflix have emerged as possible competitors, and all SVOD services provide a new channel for regional content distribution and consumption across multiple devices. Of the three, SVOD in the Middle East is mostly a complementary viewing service. The fact that viewers across the region have adopted online video in addition to conventional television illustrates this.

Strategic partnerships in the region are key to pushing the local content envelope

One of the largest content gaps in the region is the supply of Arabic content. Arabic digital content development should be a key focus, as the majority of the population prefers locally produced, Arabic content which is still in its infancy in the region. SVOD's lower subscription fees but also relatively lower subscription base in the region has made it particularly difficult for local SVOD providers to expand their content libraries purely on a revenue-based budget. The most viable way to address this is to form strategic partnerships. Content developers, broadcasters, pay TV platform owners and SVOD service providers need to work together to address not only content gaps but also to maximize reach via distribution networks collectively.

Both local SVOD and pay TV markets are small, but SVOD has strong growth potential in the mid-term

At 9-10 per cent penetration the Middle East pay TV market is still quite small compared to other regions,

growing at most by a percentage point every two years. However, with online streaming already at 40-50 per cent penetration, especially in the Gulf, there is much room for the SVOD market to grow.

Local television broadcasters and pay TV platform operators are likely to expand their SVOD offerings

In the Middle East region, existing broadcasters, pay TV providers and telecom operators also offer their own SVOD services. Many have enhanced their service offerings to meet rising consumer demand for high quality, exclusive content. The success of local SVOD platforms depends on their ability to invest in premium original Arabic, and to offer the first window for international content. This, coupled with a vast library is the content strategy which redefined Netflix's business model, and could potentially do so for local SVOD players in the region.

The addressable market for SVOD in the Middle East

Both low broadband penetration (compared to Western economies) and widespread piracy in the region have somewhat challenged the local SVOD market's potential. However, both high mobile and a healthy 40-50 per cent online streaming penetration, yield a large potential market for SVOD. Existing online streaming services such as YouTube already indicate the opportunity. Although a free streaming service, it has reported the Middle East and Africa to be its second biggest market, with around 14.5 million hours being watched daily by local users

The challenge of language

Language is a challenge particularly in the GCC, home to a large range of expatriates, constituting a significant percentage of the local. Hence, subtitling and dubbing is not only needed in English and Arabic, but also in languages of other major expatriate communities. Differing dialects across the Middle East pose another challenge for broadcasters and content producers.

The SVOD market will likely be blended into the overall television market

New SVOD companies have recently entered (e.g. icflix) and are still breaking into the local market. Traditional pay TV companies such as beIN Sports and OSN have also launched their own SVOD services under their own brand (e.g. OSN GO) and telecom players have resorted to an IPTV play.

Broadcast sports rights: looking ahead to 2015

Broadcast sports rights in the Middle East: onwards and upwards

In the Middle East, Deloitte estimates that in 2015 and beyond the value of premium region-specific sports rights will continue to increase by at least 15-20 per cent, exceeding the 12 per cent rise of all premium sports rights estimated globally. With global sports rights estimated to be growing at a slightly slower pace in 2015 than the previous year, sports rights from next year are set to outpace global growth by an even wider margin.

The much lower base in the value of regional premium sports rights (over 8.2 times lower between the top local leagues and the English Premier League and UEFA Champions Leagues as of 2011) will still require significant investment, development and at least a decade to reach anywhere close to the levels being witnessed with the big Western leagues.

Viewership preferences. Earlier surveys in countries with three of the biggest domestic leagues in the Middle East reveal around 90 per cent of Arab viewers on average follow their local league more closely than international ones.

Improved monetization of sports content. Our survey of Middle East viewers shows that the increase in pay TV subscriptions is inspired by their prime interest in sports content. However, with low pay TV penetration across the region and the majority of international leagues primarily driving subscriptions to sports channels, monetization of local league content is still a challenge. Both local leagues and pay TV operators in the region are exploring various business models to maximize this.

Complementary content production. Regional broadcasters now provide high quality content as an accompaniment to the actual broadcast matches themselves. This includes dedicated commentaries, studio match analysis and on-the-ground reporting and player interviews, creating a world-class sports viewing experience.

More languages. Production in multiple languages is also another dimension which could help raise the profile and following of local leagues. Naturally, league coverage is predominantly in Arabic for Arab viewers. However, more English content production could also help engage the region's large expatriate populations, which in turn could help expand the fan base of local leagues.

Higher technical capability and content quality.

Almost all local premium sports content is now broadcast in HD. Online multi-screen VOD/SVOD services, 3D TV, Dolby digital surround (introduced to the AGL in the 2013/14 season), dedicated mobile league applications (e.g. the AGL mobile application), live social media updates and most recently second screen applications (e.g. for viewers to watch replays when watching the match live) are all new additional services to maximize the viewer's exposure to the match.

Rise of regional sports events with international clubs and stars. The UAE has taken a leading position in sports industry events and conferences since 2003 with events such as the annual Globe Soccer event, one of the region's main football industry happenings now in its fifth edition, to attract interest and encourages development of sports in the region. In addition to industry events, there is also an increasing presence of popular international sports events involving international football clubs in the region. Together, these factors have helped develop the value proposition behind local sports content and promote the local sports ecosystem.

Television should not go short on long-form

Short-form's bold rise in the Middle East: a new viewing format in addition to traditional television

With 70 per cent penetration in the Middle East, it is YouTube's second largest market worldwide. With the rise of successful short-form cases such as Jordan's Kharabeesh YouTube channel, which was named one of YouTube's top 10 channels in 2013 with over 68 million views and now averaging about 23 million views a month, short-form has gained traction in the region. However, despite short form's rise and success, compared to traditional long-form TV shows such as Arab Idol, which amassed over 100 million viewers in just its second year in 2013, we can see that traditional TV in the Middle East is also here to stay, with its own bright future.

Media players in the region have spotted and jumped onto short-form's bandwagon

Local media companies and advertisers have recognized the potential of short-form video as the top twenty advertisers in the region are all on YouTube, as a key part of their marketing campaign strategies.

The significance of long-form over short-form is clear in the Middle East

Viewership patterns emphasize the difference between long and short-form. The difference is also clear when comparing average time spent online (which includes streaming short-form videos amongst other activities such as social networking). On average viewers spend almost an hour more per day on long-form television than on short-form television, which is often accessed online.

Short-form and long-form: distinct and similar, but short-form also has its own story in the Middle East

Regional consumers, like those globally, treat short-form as a distinct proposition, accessing it at different times, places and devices to long-form. Short-form content is accessed by Arab consumers more on the go, outside of the home, whereas long-form is likely to be viewed on television devices at home. In the Middle East, where 70 per cent of the population is aged less than 35 years, short-form appears to be most appealing to the youth. Short-form is widely perceived to be and used as a more authentic, uncensored and trustworthy source of information, like social media. Further, short-form video can be very interactive. For instance, YouTube in the region is used more as an interactive rather than a pure passive viewing platform

Regional broadcasters are more likely to use short-form as a complement to long-form shows

Broadcasters in the region are focusing more on long-form which is generating much higher viewership than short-form as it is. However, at the same time, they are already using short-form to complement existing long-form shows, usually in the form of repackaged content.

Innovation: can the television industry compete?

Television in the Middle East: still king

In the Middle East, television has maintained its position as the dominant media platform, despite digital disruptions including the rise of online streaming, social media, and mobile gaming as well as smartphone and Smart TV penetration. This is reflected in the evolution of television's average viewing time and total advertising spend. Both have remained quite consistent in the past few years.

Technology and digital: adopting global and inspiring local innovation

Demand for next generation television. One of the key developments in the Middle East has been the adoption of next generation television sets from international manufacturers – it has been marked by some manufacturers as one of the fastest growth regions. Local viewers are therefore not only interested in exclusive content, but are also buying into the latest technological advancements to enhance their viewing experience.

Proliferation of Smart TVs. The prominent rise of smart TVs in the region led to various partnerships between OTT players and major consumer electronics players.

Smartphones as second screens. The rapid adoption of smartphones, whilst it has not changed how much people watch traditional television, has also opened up new channels for television content consumption.

The rise of Social TV inspiring local content innovation. The Middle East's unique demographic (particularly in the Gulf countries), high smartphone penetration and strong engagement with social media have been key drivers behind innovation in content idea generation and production. Social TV is an emerging trend in the region which combines social media usage with TV watching trends. While this is not unique to the Middle East, the region is finding new ways to leverage social interactions in order to drive the content production process. The impact of these trends on the television market is resulting in innovative ways in which TV content is being developed.

Migration to digital terrestrial transmission (DTT). The region is quickly shifting from analog to digital broadcasting. This is seen through new regulations in countries such as the UAE where TV suppliers are

required to provide DTT tuning devices with every television set.

Financing innovative programming. The region has throughout the years focused on imported content. More recently, locally produced content has witnessed a surge in demand, and incubators and media accelerators have responded by providing financial assistance, particularly to local content producers.

Content convergence: moving from domestic to regional and international storytelling

In the past, TV series have been specific to individual countries or clusters across the Middle East (e.g. Levant). By casting actors and actresses collectively from various Arab countries (implying a variation of dialects), TV series can appeal to and attract a wider range of viewers. Aside from pan-Arab programming, regional players are also combining content from other cultures and ethnicities. Additionally, the emergence of local YouTube celebrities is a new trend in the region, as they often take a satirical approach to recent political turmoil, taboo topics and general traditional values.

Television's evolution in the Middle East: a mixed bag of hot and cold developments

Television's progress in the Middle East has been mixed. Some developments have been very fast (e.g. DTT, IPTV growth off the back of fast broadband infrastructure development, Smart TV and smartphone penetration) and some have been very slow (e.g. pay TV penetration, which is not used as widely as free-to-air television).

Leveraging the region's youth and media hubs to drive change

The Middle East, driven by its youth demographic, is known to be quick in adopting new technologies, once they are proven in the West. New innovations such as YouTube have enabled the youth to develop their own creative edge – and it has proven to be a force to be reckoned with. The rise of dedicated media zones have also emphasized the rising prominence of local content production in the region. As these initiatives and hubs continue to encourage the development of new technologies and support young creators in developing local content, the plot of television in the Middle East will only continue to thicken.

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