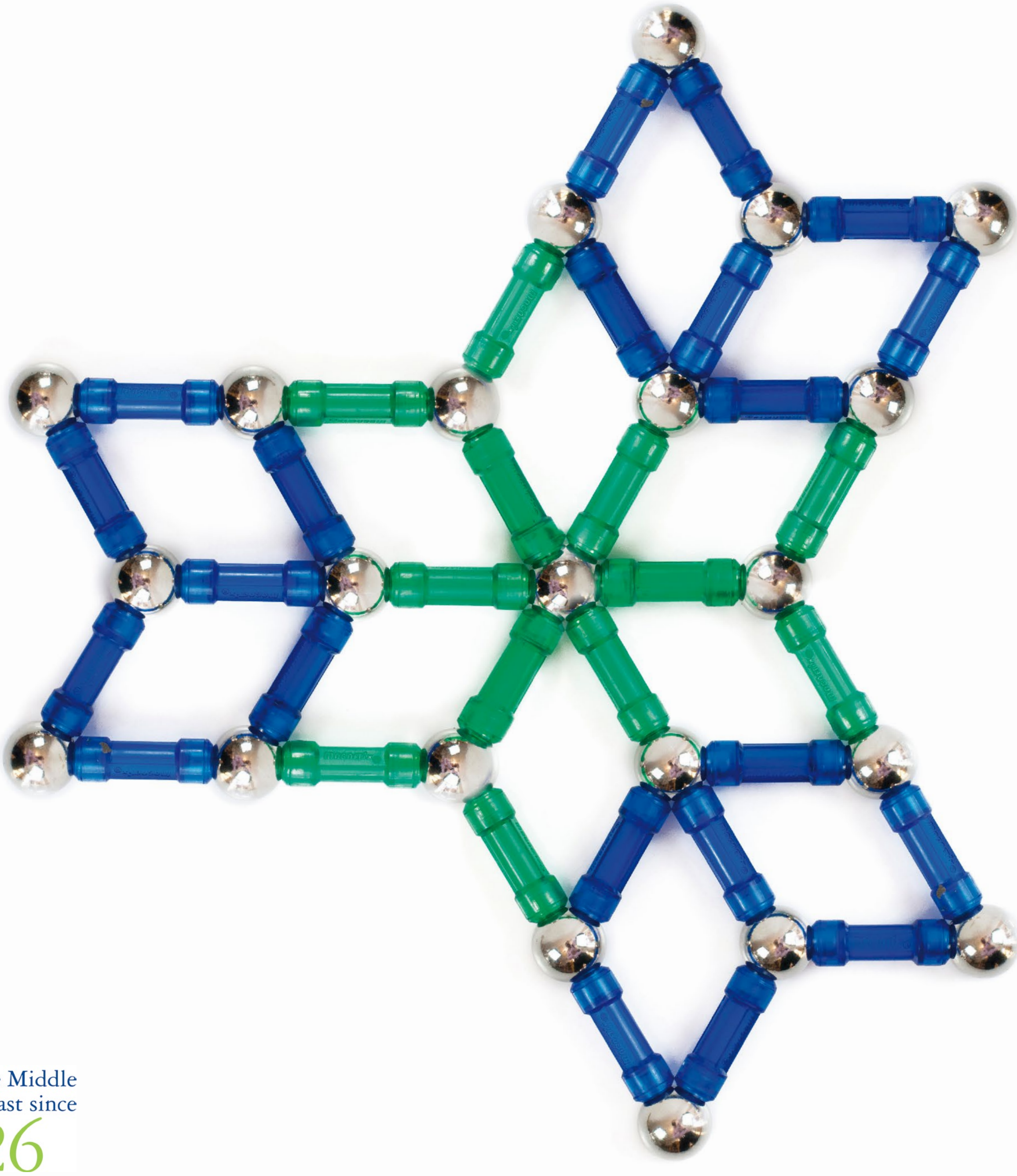
Technology, Media & Telecommunications Predictions 2014
Middle East



In the Middle East since 1926

Doubling up on pay-TV

Deloitte predicts that by the end of 2014 up to 50 million homes around the world will have two or more separate pay-television subscriptions, with the additional subscriptions generating about $5 billion in revenues[237]. A further 10 million homes will receive premium programming as part of their subscription to another service, such as broadband[238]. Over the coming years, the number of households with multiple subscriptions should continue rising, as more content owners and aggregators, including platform owners such as cable and satellite providers, make their content portfolios available via subscription video-on-demand (SVOD) delivered 'over-the-top' using broadband connections. A further stimulus to the market will be the increasing availability of inexpensive HDMI dongles, which connect TV sets to the web.

Most of these 50 million households will have just two pay-TV providers, typically one platform-based (satellite, cable or IPTV) service and a secondary SVOD service, but about five million may have three or more providers[239]. By the end of 2015, twenty percent of homes in selected markets will have three or more pay-TV subscriptions, as more rights owners make their content available via video-on-demand (VOD), as broadband speeds increase[240], and as premium programing is increasingly used as a customer retention tool[241].

This trend is counter to historical expectations of 'cord cutting', whereby households would either drop their pay-television subscription altogether, or replace their platform-based subscription with a SVOD package[242]. Cord cutting has been anticipated for the past decade: in surveys, a significant proportion of pay-TV subscribers have signaled their intent to cease subscribing, yet year after year these intentions have failed to materialize, and the base of pay-TV subscribers has remained constant or even continued to rise in many countries, even in markets with a high pay-TV base such as North America, where over 90 percent of homes have pay television[243]. Overall, platform-based pay-TV has continued to grow in size, with 895 million homes paying $245 billion in 2013, and revenues expected to reach $287 billion in 2017[244]. Although SVOD services have been growing, it appears that customers are continuing to subscribe to platform-based pay television, and adding SVOD to make a 'content stack'.

In markets where there are multiple platform-based providers of pay-TV, some of the players – be they satellite, cable or IPTV-based – are beginning to offer elements of their program portfolio on a SVOD basis to customers of other platform providers[245]. A cable TV customer may want both the high broadband speeds available via digital cable and also some of the content only available from a satellite provider; this customer could access the provider's content via an additional SVOD subscription, rather than purchasing a more expensive platform-based subscription.

The pay-TV story in the Middle East

The market for pay-TV in the Middle East is quite small. Household penetration of pay-TV is estimated to be only 6 percent in 2013[246]. However, in recent years, the region's pay-TV subscriber base has gathered pace. Pay-TV subscribers in the region are estimated to have reached over 3 million in 2013, with some analysts expecting it to reach as much as 6 million by the end of 2018. This represents healthy double digit growth over the past year and in quite a few years to come[247][248]. One of the largest pay-TV providers in the region, Qatari based beIN Sports recently claimed an impressive 26 percent growth in its subscriber base in 2013 over 2012[249]. The growth reflects the developing appetite for pay-TV in the region.

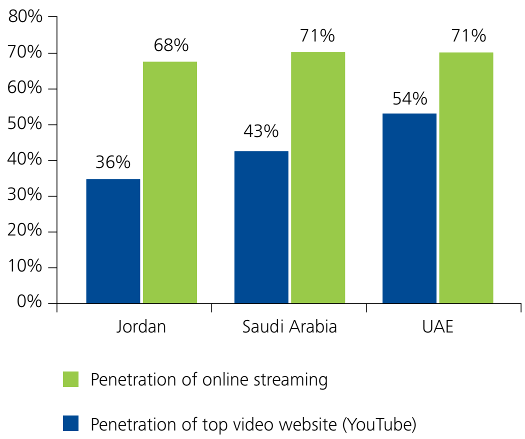
The Middle East SVOD space

SVOD as a proposition in the Middle East is reasonable and could gain traction. Viewers in the region are likely to find many aspects of SVOD appealing. The most important of which is the quality of content offered and its price. The fact that SVOD offers exclusive content that is not available on TV, such as classics or archived content (no longer screened on TV), is a key selling point. With prices comparable to cinema tickets, SVOD services are also affordable for many viewers. Through connected devices such smart TVs, smartphones, tablets and PCs, SVOD services offer a major convenience factor as well, enabling content to be accessible from anywhere at anytime.

VOD and SVOD has been in the Middle East market place for some time, with MBC's Shahid.net originally establishing itself in 2007 and re-launched in mid 2011 as the first VOD service[250]. A number of region specific proxy indicators suggest that there is market potential for SVOD, with the sizeable penetration levels of online streaming and YouTube in the region.

The fact that viewers in the region have adopted online video in addition to conventional television shows a market potential for SVOD as a secondary viewing service. Surveys of the region's Generation Z's (aged 16-24) have also indicated their willingness to pay a premium to receive shows on demand[251]. The success of Shahid.net in Saudi Arabia, where the majority of their subscribers are based, and who are reportedly considering SVOD, is a good example of this[252 253].

Figure 9: Online video penetration indicators (2012-2013)



Source: Deloitte research & analysis[254]

So far, SVOD has seen the most success in the more connected Gulf States, namely the UAE and Saudi Arabia. The UAE with the highest pay-TV penetration is the relatively more mature market in the region. Saudi Arabia is the largest market, firstly due to their large population base and secondly due to the lack of conventional entertainment facilities such as Cinema that are available in neighboring countries. Although there is sizeable market potential, the SVOD market size is still small and in its infancy.

However, new players are emerging across the Arab world, seeking to tap into the region's SVOD market. Following Shahid.net's success in their initial VOD offering, new SVOD players such as TE Live have emerged in Egypt. Telecoms operators have had SVOD services for some time such as STC (Shashti) in Saudi Arabia, du (On Demand Club) and Etisalat (eLife video packs) in the UAE and Ooredoo in Qatar are also offering SVOD services[255].

In the UAE icflix, an online SVOD service offering Hollywood, Jazzwood and Bollywood content, is one of the most recent market entries in 2013. Maroc Telecom in Morocco, is the latest SVOD entry, having just launched the country's first SVOD service at the end of 2013[256]. Even Shahid.net in 2014 are reportedly considering the SVOD business model, given the popularity of its VOD platform[257]. Players from Western markets such as Wherever TV are also offering SVOD services catering towards Arab viewers. US SVOD giants Netflix have also expressed an interest to expand into the Middle East[258].

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The case for SVOD

It might seem extravagant for a household to double up on pay-television providers. However it reflects a longer-term trend to add to existing packages: rather than sourcing additional packages from other platform providers, thanks to high-speed broadband services customers are now able to source from other content services, often at a price equivalent to adding a minor bundle, typically for less than $10. So while households may have two providers of video content, the second subscription is at a far lower cost.

This is especially the case in the Middle East, where viewers in general are highly price sensitive. SVOD providers in the region have factored this into their pricing. Although this varies slightly between countries, in general, SVOD packages in the region are priced in the range of $6-12 dollars per month, around $8 on average[259]. This is line with western SVOD providers Netflix and Hulu, who charge $8 for subscriptions to their monthly SVOD offerings[260]. The fact that local telecoms providers have also added SVOD services in addition to their normal TV packages also indicates that providers are responding to a rising regional demand in additional services. For example STC in Saudi Arabia now offers three SVOD packages covering movies, TV series and Kids for $6-7 per month. Compared to their TV add on packages which are $13-15 per month, viewers will naturally prefer to pick and choose their additional content with SVOD at the lower price point[261].

Whilst lower cost SVOD packages are more attractive for consumers seeking additional subscriptions, competition from Free-to-Air (FTA) channels in the region also presents a key challenge to the wider adoption of SVOD and pay-TV in general. With 658 FTA channels and an additional 58 under test transmission as of May 2013[262], viewers in the region have an abundance of choice. Pay-TV and SVOD not only need to offer differentiated content, but also high quality channels in High Definition (HD) and 3D especially for exclusive premium content such as sports. FTA channels have started offering HD, but may not guarantee the quality of service that pay-TV or SVOD could provide. Viewer demand for quality has fuelled rising pay-TV subscriptions in UAE and Saudi Arabia, two countries which also host the highest number of FTA channels[263].

It may well also be the case that a member of the household other than the platform-based pay-TV (billpayer) signs up for a SVOD subscription – perhaps without that person's knowledge. If so, no individual member of a household may be aware of the full range of pay-TV services being subscribed to by everyone in the home.

This is likely to be the case in the Middle East, where households typically tend to be larger than in other parts of the world. Whilst more senior members of a Middle Eastern household are likely to be satisfied with their existing TV package, younger members of the household, who are more active online in the Middle East, are likely to also buy into SVOD services to access video content that is tailored to their choice.

Another medium-term development which lessens the financial impact of a second subscription is that households adding SVOD while maintaining existing pay-TV are substituting spend that would have gone on DVD rental and purchase. Indeed in some markets, the decline in DVD box set revenues matches closely the emerging, rising spend on SVOD[264].

At the same time, the decline in DVD rentals and purchases in the region is also largely attributed to piracy, another prevalent issue in the Middle East and one which also extends to pay-TV. The scale of the problem is highlighted by a number of analysts, who estimated that piracy cost the Arab pay-TV industry as much as $500 million each year in lost revenues[265]. Although piracy also causes lower adoption in pay-TV and SVOD in the Middle East, pay-TV operators have taken a number of steps to combat this. Recently developments include Abu Dhabi Media investing in anti-piracy hardware and software, with similar investments by OSN in anti-piracy technology[266], and beIN Sports latest 'GO Secure' anti-piracy campaign requiring viewers to register their smart cards and receivers with beIN Sports to view channels that have undergone new encryption upgrades[267].

Demand for SVOD is likely to be further increased by the growing availability – with 20 to 30 million units expected to ship in 2014 – of Wi-Fi-enabled streaming dongles that provide access to SVOD services via the HDMI port. TV programs tend to be most appreciated when watched on a TV set rather than on the smaller screens of PCs, tablets or smartphones. However, SVOD on a TV screen requires a connected TV set (still a minority of the installed base of televisions) or a connected device (games console, PC, tablet or smartphone) which acts as a conduit for streamed programming. The Wi-Fi dongles make non-connected TV sets connected, or can free up devices that would otherwise be used as the Internet streaming adapter for a non-connected TV. By the end of 2014, we would expect about twenty content owners to offer access to their content via branded streaming dongles[268].

SVOD providers have also been quick to take advantage of the proliferation of smart TVs in the region, with partnership agreements already being signed with the big smart TV manufacturers. icflix's recently announced partnership with Samsung and LG allows viewers to download the icflix app onto their smart TV to directly access SVOD content[269].

We expect subscribers to start accumulating SVOD suppliers because there may be no single company that can offer all the content that all members of a household want. Each SVOD supplier that acquires content, either through original commissions or exclusive distribution deals, is likely to choose content that is most attractive to its customer base.

Regional providers have their own content offerings. For example, Shahid.net, although a currently VOD provider, primarily offers MBC content for Arab viewers, whereas SVOD provider icflix offerings include Bollywood for Asian sub-continent expat viewers[270]. Although the range of content available through different providers will encourage SVOD package accumulation, in the region, we expect this to be limited by the price sensitivity of the consumer. Rather than accumulating a suite of three or four different SVOD packages, the average pay-TV viewer is likely to limit themselves to the one additional SVOD offering on top of their existing pay-TV package.

We would expect a broader range of companies to commission content in the future – not just broadcasters or platform owners, but also technology companies and retailers, or any entity hoping to differentiate its offering through exclusive content; and the cost of exclusive content is so high that no individual provider will satisfy the needs of every household.

The broader commissioning of exclusive content in the region will be driven by existing content gaps, the most significant of which is in the range of Arabic content available. Shahid.net's success not just at home but also with large number of their Arab subscribers abroad emphasizes this. Another significant gap is in premier blockbuster subscription services, similar to those offered by Netflix. There is likely to be fragmentation here, with different SVOD providers specializing in providing various aspects of blockbuster content, depending on the content rights they can afford and secure. There is also opportunity to create media content including localization or dubbing as well as newer emerging formats such as transmedia, which appeals to dedicated fans.

Bottom line

With the Internet and pervasive broadband, content creation and ownership is now spreading among more and more companies. The rise in the number of entities commissioning content means there will be increasing competition for on-screen talent, writers, producers, and even set designers[271].

Some part of the growing spend on subscription video-on-demand is substituting for money that would have gone on purchasing DVD box sets. Content providers will need to forecast a changing revenue mix carefully, so as to avoid either under-investing in content, or spending over budget.

Content producers should consider how ever-improving broadband speeds open up new markets for them; they may no longer have to deal directly with platform owners to reach end-users. Content owners should however be cognizant of the implications of selling direct to the end-user, such as the need to provision local network storage and payment options. Further, cutting out a distributor may increase margin, but at the cost of addressable market.

Platform owners should tap into the growing demand for additional pay-TV subscriptions to increase their addressable market, by offering their content over-the-top to those who do not subscribe to their platform service. On-demand subscribers are likely to pay smaller monthly sums than subscribers paying for the platform package; it will be important to balance pricing such that both sets of customers feel they are getting value for money and OTT solutions do not cannibalize the platform base.

The quality of OTT VOD services will be contingent on the quality of broadband for each subscriber. The SVOD provider may have little control over this, aside from allowing the customer to vary the bit rate according to available bandwidth, and advising consumers on how to optimize broadband speeds[272]. Monthly data allowances, where these exist, constrain the number of hours that can be watched for heavier-viewing households.

There is upside for broadband providers, some of which may also be the platform owners. The more VOD watched, especially at higher resolutions, the greater the demand for broadband. Households with a high propensity to use SVOD may well upgrade to higher-speed packages, or may pay more to have higher monthly download allowances. Indeed a major reason for the growth in fiber to the home/cabinet (FTTH/FTTC) connections is likely to be because households want to be able to consume one or more SVOD service at the best available quality.

Broadband providers tapping into the growing demand for SVOD should be aware of viewing patterns, which are likely to resemble those for broadcast television, and build to meet capacity peaks cost-effectively. SVOD companies may need to deploy local caches of video content. Demand for video content may vary by neighborhood, and carriers should use analytics to understanding localized viewing trends, and provision for edge of network storage accordingly.

Cable, IPTV and FTTC broadband services are rivalrous: the more people watching video within an area affects the quality of service for others in the same locality, and video already represents the bulk of capacity usage in many markets. For example, video streaming represents over half of all downstream capacity in North America[273]. Therefore platform-based TV services may always have an advantage when it comes to delivering consistent quality of service to the majority of homes. Although many of the additional pay-TV subscriptions will be delivered via broadband, the need for platform-based service is likely to remain.

Middle East perspective

The markets for both platform pay-TV and SVOD services in the region are evolving together in tandem. This is unlike other regions, where TV developed in a rather linear fashion: platform pay-TV came and penetrated first, followed by the introduction of OTT, IPTV platforms, then VOD and SVOD services as new innovations. In terms of penetration, both pay-TV and SVOD services are in their infancy, and both hold growth potential.

With many SVOD providers in the Middle East, there is no clear winner as yet. However, in due course, we expect more players to enter the region's SVOD space. There are opportunities for broadcasters and telecom operators to partner with each other to offer a compelling proposition. While operators can manage the quality of the customer experience and provide an extensive distribution footprint, broadcasters can leverage access to their vast library of content.

Local SVOD providers need to strengthen the appeal of their offerings by expanding their repertoire of exclusive content if they are to attract a wider subscriber base. Partnerships with content developers to address content gaps and to build online exclusive content could be a competitive advantage. International SVOD players namely Netflix and Hulu with existing expertise and experience could enter the region quickly with market offerings that could dominate the market. Local SVOD players should be wary of this and use their presence in the market to offer the best content and cement their positions in the Middle East before international players enter.

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Endnotes

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