

# Content distribution and the growing influence of OTT in the new age of linear and non-linear television

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It's more than just about Netflix...



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## ...even in the US

- ▶ 101 OTT services available (Q1 2016)
- ▶ But only 5% of broadband h/h have a subscription to one of more other than Netflix, Amazon or Hulu
- ▶ 52% of broadband h/h subscribed to Netflix at the end of 2015
- ▶ Around 20% of broadband h/h cancelled at least one OTT video service in 2015

*Source: Parks Associates*

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# A market in transition

- ▶ 33 new OTT services launched in 2015
- ▶ Netflix has the lowest churn rate (5% of US broadband h/h in 2015 -equivalent to 9% of its customer base)
- ▶ Comparative churn for Amazon Prime Video: 19% of customer base; Hulu: 50% of customer base
- ▶ Viewers are becoming more selective, signing up for specific shows or trial periods

*Source: Parks Associates*

# OTT growing in Western Europe

- ▶ Online video viewing (TV shows or movies) among broadband h/h: 72% Spain; 57% Germany; 55% UK; 51% France
- ▶ Pay-TV adoption among broadband h/h: 50% Spain; 87% Germany; 74% UK; 75% France
- ▶ But only 30% of broadband h/h in UK and 17% in France pay for OTT – much lower than in the US
- ▶ Market changing as more paid options become available

*Source: Parks Associates*  
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# Netflix leads in the UK...

- ▶ 24% of UK homes subscribe to Netflix, Amazon Prime Instant Video or Sky's Now TV (Q4 2015, cf 14% a year earlier)
- ▶ Netflix "the big success story": 5m+ homes (+1.5m y-o-y)
- ▶ Amazon: 1.5m+ (+0.5m y-o-y)
- ▶ Now TV: <1m (+0.3m y-o-y)
- ▶ However, mainstream viewing still dominates

*Source: BARB*

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## ...and Germany looks to OTT...

- ▶ 46% of Germans considering switching from cable, DTH or DTT to OTT reception (Q1 2016)
- ▶ Figure is 60% higher than a year earlier
- ▶ Interest in OTT driven by growing availability of high-speed internet access, streaming boxes and smart TVs
- ▶ Most used streaming offers: YouTube (66%), TV channels' catch-up (63%), VOD (34%), TV live streams (28%)

## ...as popularity of VOD grows

- ▶ Turnover for VOD services forecast to rise to €717m in 2016, up 24% on last year
- ▶ Free, ad-funded services(eg YouTube, MyVideo, Clipfish, Netzkino) will have combined turnover of €316m in 2016
- ▶ Fee-paying services (eg Netflix, iTunes, Amazon Prime Video, maxdome) will claim €401m

*Source:*

*Bitkom/IHS*

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# While in Central and Eastern Europe



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# Netflix has its work cut out

- ▶ VOD markets already quite mature – and highly competitive – in Poland and Russia
- ▶ Main obstacles for Netflix – lack of localised (dubbed/subtitled) and locally produced content, lack of variety in content offered and high subscription fee
- ▶ Additional problems in Russia
- ▶ Early indications point to a mixed start, even in the more promising markets

# Netflix in Poland – Q1 2016

Month	Real users	Opens	Reach
January	337,674	2,744,902	1.49%
February	73,666	619,603	0.34%
March	160,618	959,775	0.73%

▶ *PCs only; tablets/smartphones negligible*

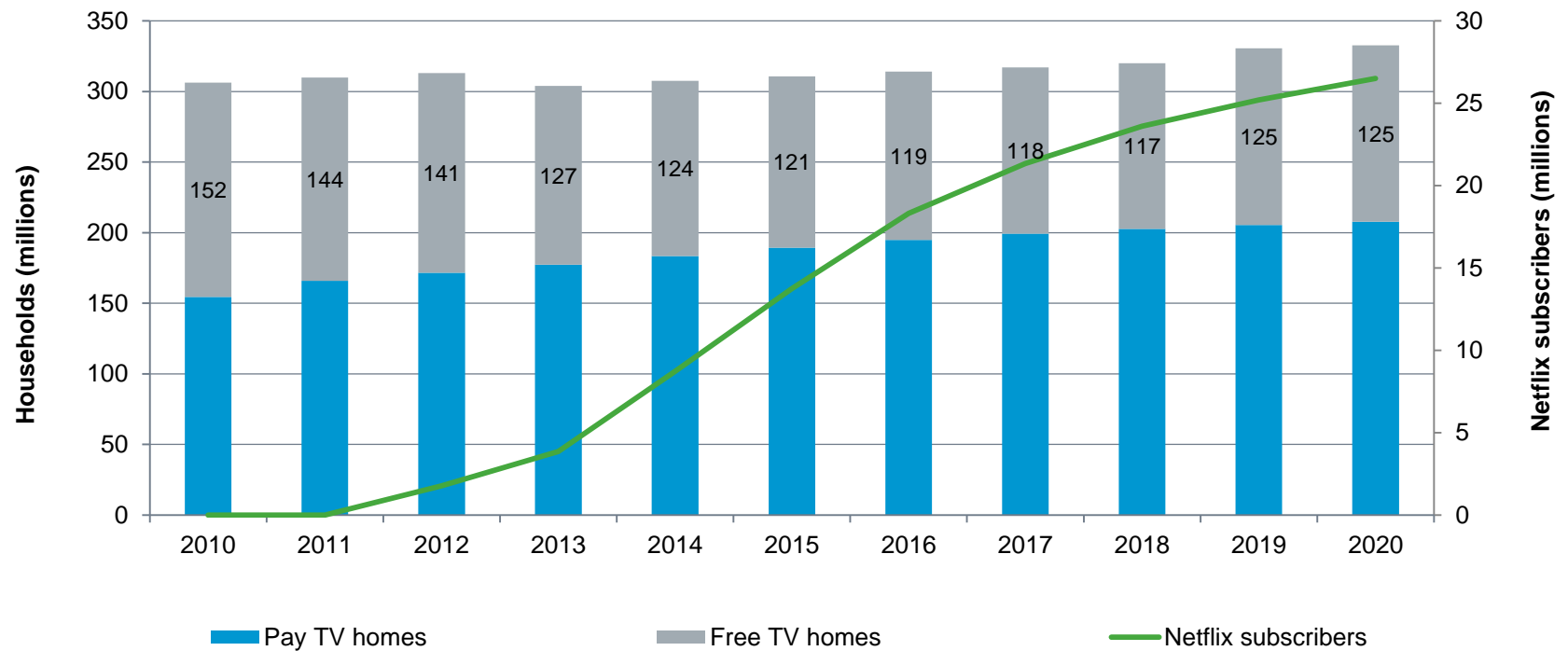
*Source: gemiusAudience*

# OTT in CEE: 10 key services

Name	Owner	Coverage
Banaxi	Banaxi	CZ, PL, HU, SK, RS
Horizon Go	UPC	PL, HU, CZ, SK, RO
Ipla	Cyfrowy Polsat	PL
Ivi	Ru-Net, Baring Vostok	RU
MyTV	Telenor	HU
Netflix	Netflix	Whole region
Player	TVN	PL
Telekom TV	Telekom Romania	RO
TV Go	Magyar Telekom	HU
Voyo	CME	BG, RO, HR, SK, CZ, SI

# Pure OTT players v traditional pay-TV

Europe pay TV and non-pay TV households, 2010-2020



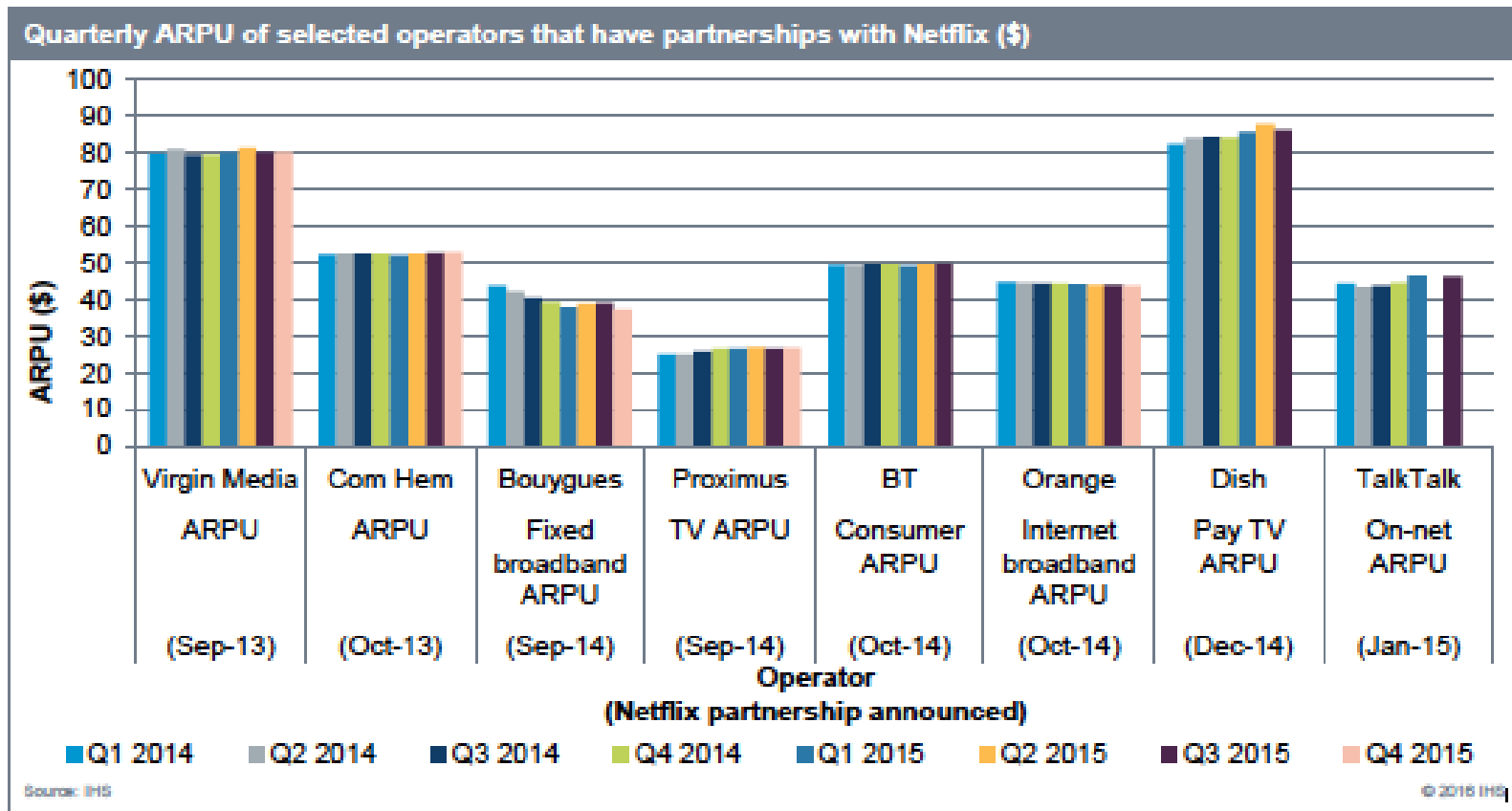
Note: "Free TV homes" refers to households that rely on terrestrial / free satellite for broadcast TV. This means that subscribers of Netflix and other pay OTT-video services are included in this category.  
Source: IHS

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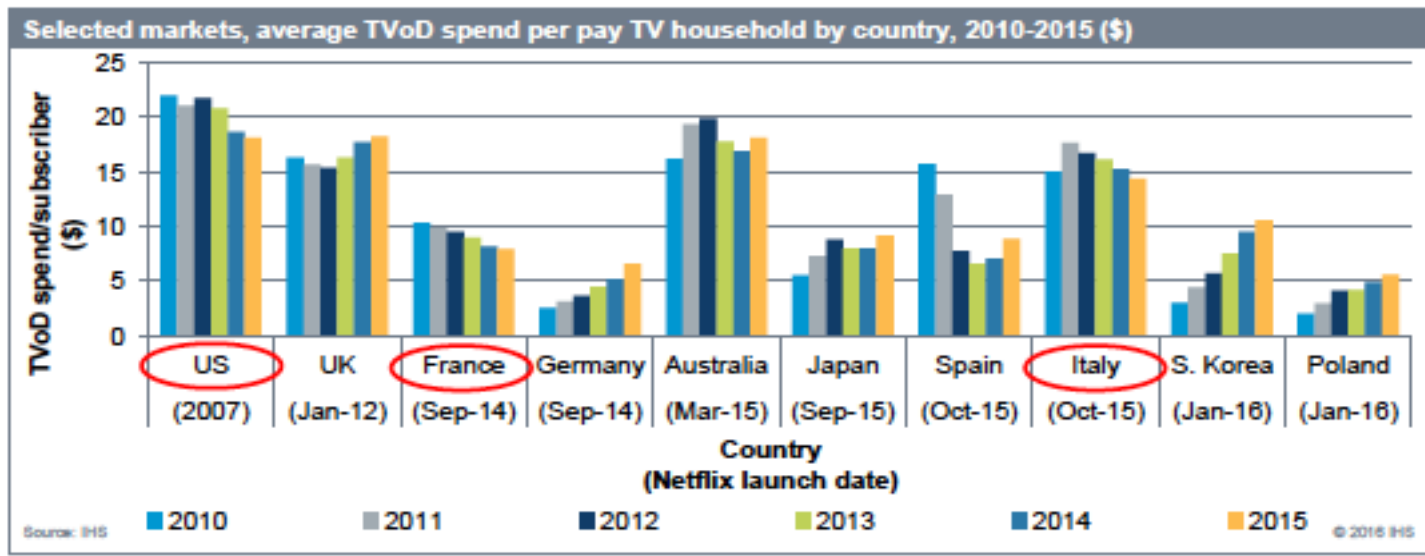
# Partners and competitors

- ▶ Pay-TV operators can feel threatened by Netflix and other OTT SVOD services as they appeal to FTA (terrestrial/satellite TV) homes not wishing to subscribe to pay-TV services
- ▶ However, pay-TV operators can also co-operate with Netflix. 25 have partnerships with the service and more are set to follow
- ▶ There are advantages in such partnerships, as well as risks. They are also not suitable for all pay-TV operators

# Netflix supports ARPU growth

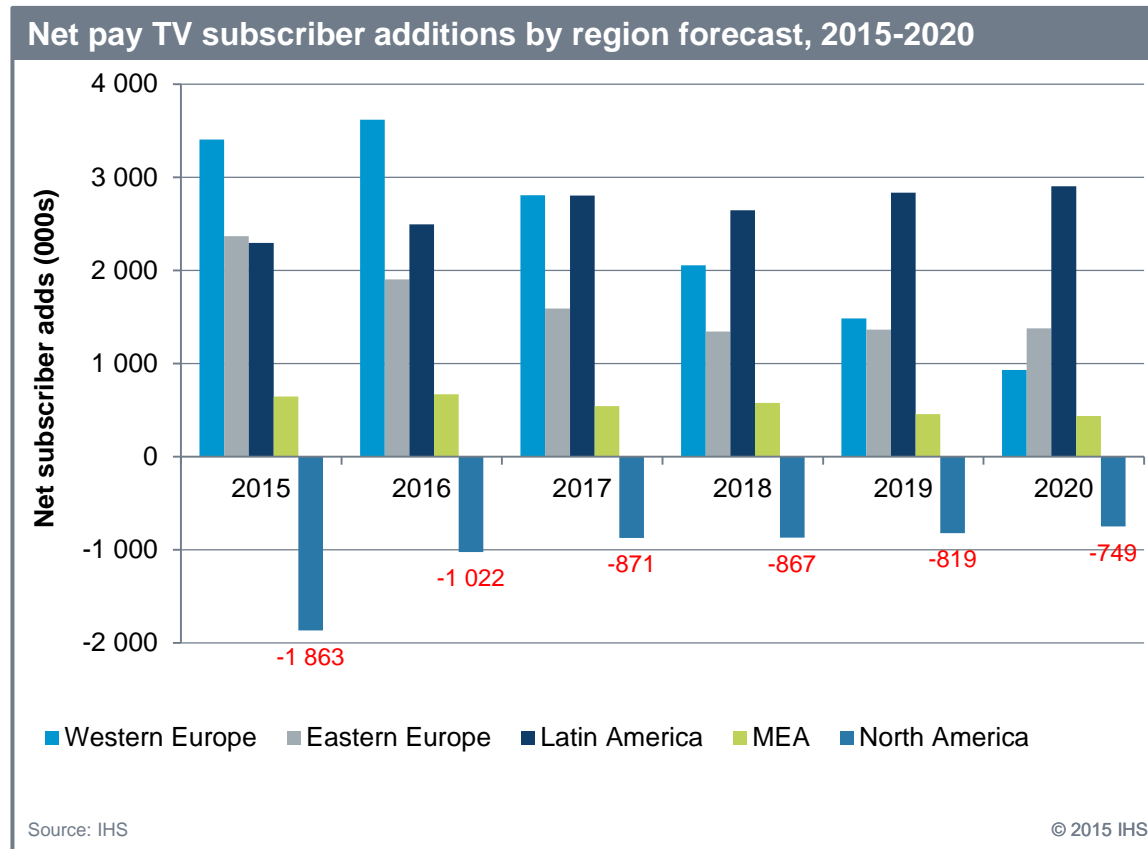


# But can impact adversely on TVOD





# Cord cutting: the real threat?

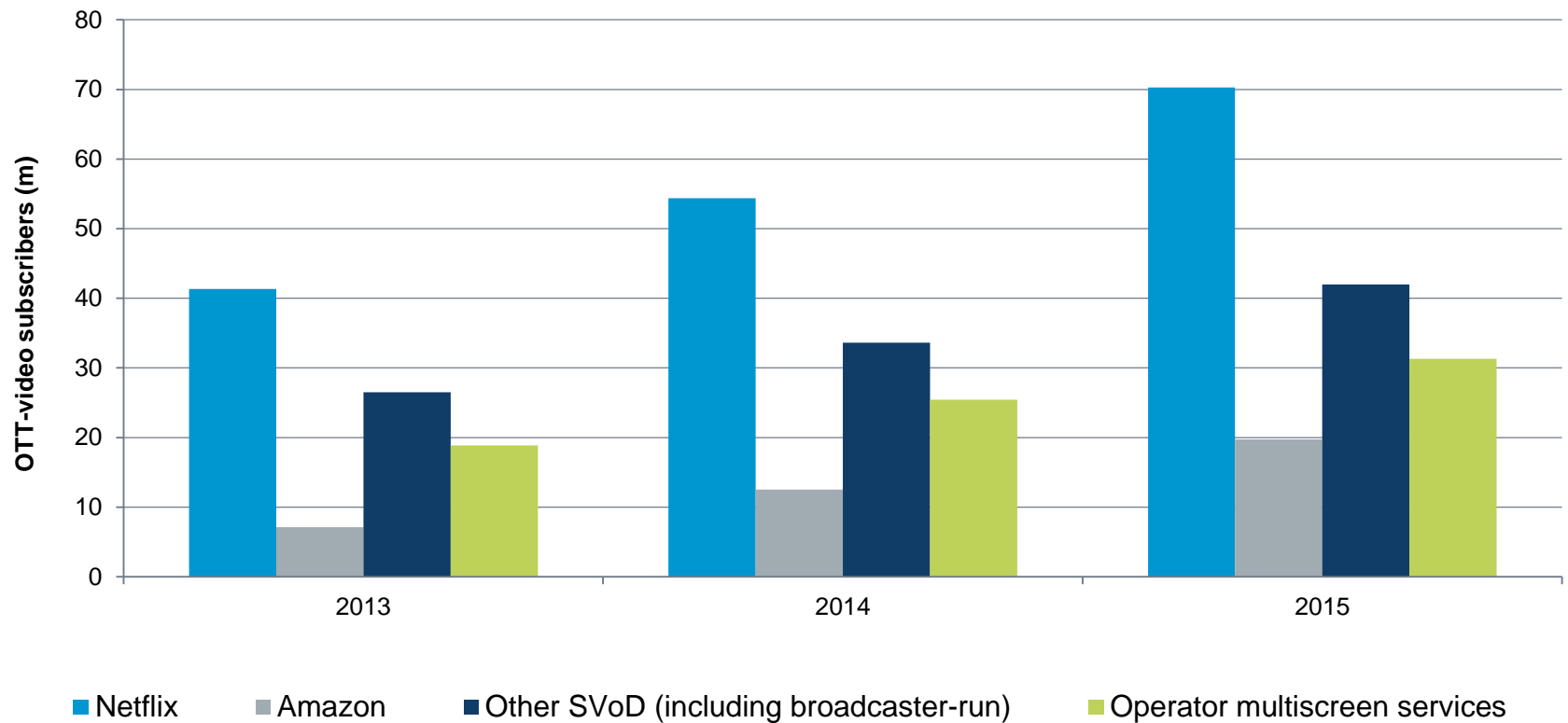


# Perhaps only in North America

- ▶ Most industry sources believe cord-cutting is only a major threat to pay-TV operators in North America
- ▶ High sub fees, market saturation and lack of innovation are major factors
- ▶ Biggest threat to pay-TV operators is arguably 'cord-nevers'
- ▶ Consuming streamed video is now an integral part of the TV viewing experience

# OTT content distribution

Global, OTT-video subscribers, 2013-2015



Source: IHS

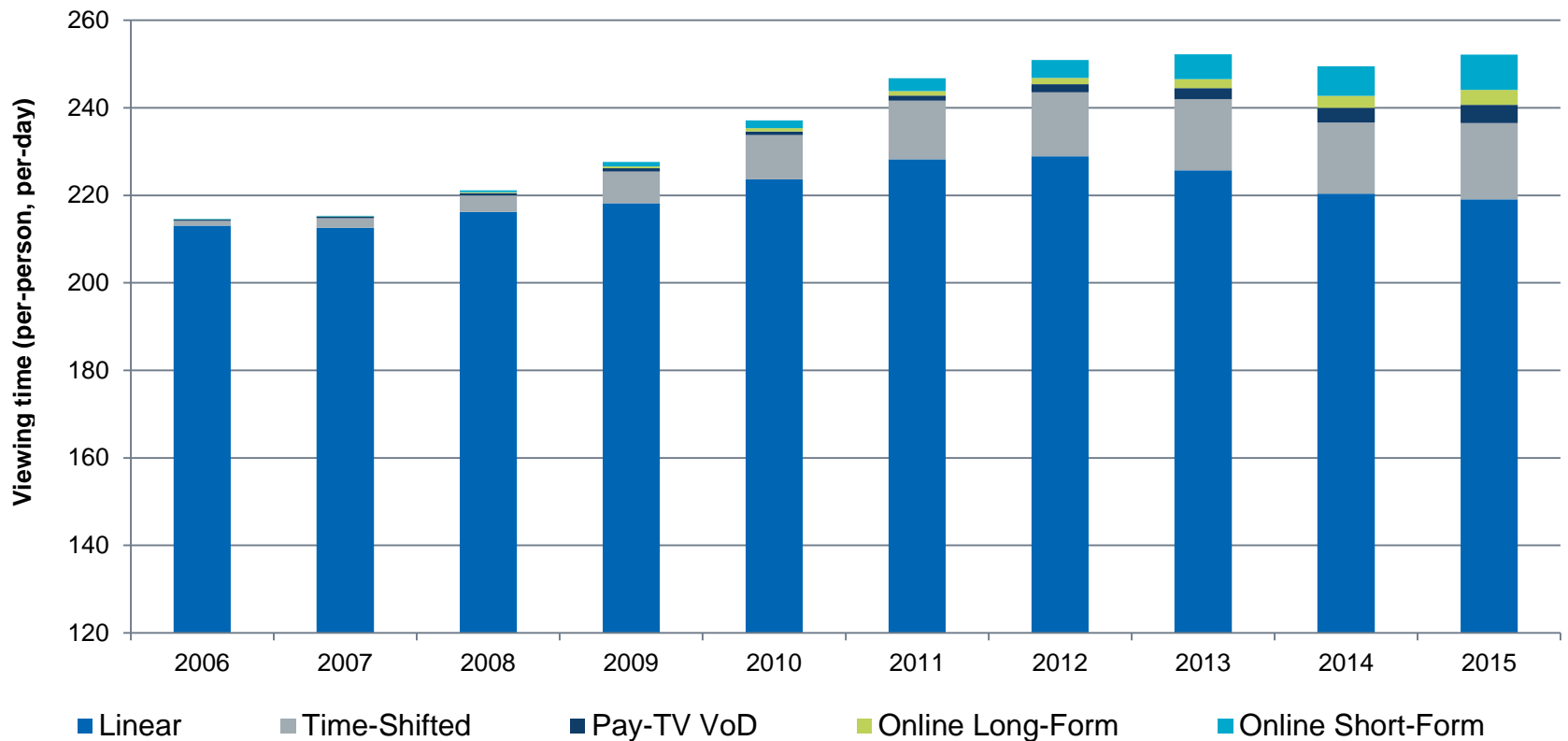
© 2016 IHS

# Amazon Prime Instant Video

- ▶ Available in US, UK, Japan, Germany, Austria and India
- ▶ Now competing with Netflix directly in US as a standalone, pay-monthly service
- ▶ Increasing spend on original content
- ▶ Key licensing deals (eg HBO)
- ▶ Streaming Partners Programme: moving to a fully open platform and a mass market product

# Linear TV still dominant in WE

Western Europe: Cross-platform television viewing time by platform



Notes: Base set to 120 minutes  
Source: IHS

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# OTT: the bigger picture

- ▶ Consumers' viewing habits have changed beyond recognition in last few years
- ▶ Growth in SVOD services has been influenced by many factors
- ▶ Traditional linear channels will remain for the foreseeable future
- ▶ However, they will start to become eclipsed by – amongst others – b/c OTT channels, operator OTT services, catch-up services, MCNs, etc

# New developments and challenges

- ▶ Programmatic advertising. Adopted by such OTT players as Hulu for its premium video. Still early days – but is it all overhyped?
- ▶ Ad blocking: a major threat to the TV industry as a whole, with global cost in 2016 estimated at up to \$41.8bn
- ▶ Major problem in Germany, where legal challenges have failed
- ▶ Solutions developed by a number of companies including Ooyala and Avanto

# Conclusions-1

- ▶ Netflix's global expansion in Q1 2016 means it continues to set the agenda. However, other international players becoming increasingly important
- ▶ The success of Netflix in many markets is far from assured. It faces challenges that may be hard to overcome
- ▶ OTT has revolutionised the TV industry and contributed to a huge change in viewing habits. Things will never be the same again



## Conclusions-2

- ▶ Despite being a threat, OTT can work with some pay-TV operators
- ▶ The future of linear TV looks assured, at least in the short to medium term
- ▶ With OTT have come huge new commercial opportunities as well as challenges
- ▶ Expect change in the TV industry to gather pace, with more broadcasters/operators launching proprietary OTT services

# Thank you / Köszönöm

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