Demand And Supply Analysis On Subscription Video-on-Demand (SVOD) Sector

Subscription Video on Demand (SVoD) is a newly emerged sector in the Philippines that is classified as Over-the-top (OTT) service since it delivers services over the internet. It is an entertainment programming model where users pay a monthly fee in exchange for instant access to a streaming library consisting of movies, TV shows, and other media content.

SVoD service providers in the country are dominated by foreign companies which include Netflix, iFLIX , Viu, and Hooq which arrived in the country in 2015. Netflix is the most popular of all since it is the pioneer in the sector globally. It is available in about 200 countries. It offers TV series, including their original ones, plus films and other international content. It was launched in US in 2007 and arrived in the Philippines in 2016 during its expansion period. Subscription starts at P370.00 per month. One direct competitor of on-demand media streaming pioneer Netflix is Hooq. It is powered by Singtel, Sony Pictures Television (SPT), and Warner Bros. Entertainment and it is. Hooq partnered with Globe to make its presence in the Philippines. It offers mixed content of international films as well as from local studios. It licensed some local content from ABS-CBN, GMA, Regal Entertainment, and Viva Communications Inc. Subscription costs P59.00 per week or P149.00 per month. Meanwhile, iFLIX has established a presence in 30 countries across three regions: Southeast Asia, Africa and the Middle East. In the Philippines, it is tied with Smart. It streams local TV shows and movies from mainstream and independent studios. It also has a few exclusive contents in the country including Mr. Robot and Fargo. It costs P129.00 per month while P99.00 only for Sun, Smart and PLDT subscribers. Unique contents, on the other hand, is provided by Viu which is operated by PCCW Media Group, a Hong-Kong based telecommunications titan. It provides access to a library of Korean and Japanese content complete with English subtitles. It now has 1.6 million active monthly users globally.

There are also domestic companies offering video streaming service but they are thriving to penetrate the larger market which include the iWANTV of the media and broadcasting giant ABS-CBN Corp., SKY on-demand and Cignal Play, among others. iWANTV is ABS-CBN's very own video-on-demand service. It mostly benefits those who need to catch up on their missed TV episode. The catch-up service is generally free but premium access is available for live TV streaming of other ABS-CBN cable channels, classic films, and past TV shows. The subscription cost is P10.00 per day or P40.00 per week or P99.00 per month. One subsidiary of ABS-CBN Corp. also plays in this sector which is the SKY cable. The company operates the Sky on demand which is a multiscreen online video service that allows Sky subscribers to stream TV shows, live TV, and movies on any gadget. Another player is Cignal Play which is available to all Cignal and PLDT Triple Play subscribers. It offers video on demand and live channels.

Indeed, there is a handful of service providers in the SVoD sector. Aside from those mentioned earlier, other players include Fox+, Amazon Prime Video, Disney Life, HBO Go, Crunchyroll, Tribe Philippines, Viddsee, WWE Network and Blink.

Globally, the Philippines ranked 36th in terms of revenue from SVoD players. According to

Statista, the SVoD sector in the country has the potential revenue of US$59M in 2020 and is expected to demonstrate an annual growth rate of 12.0% which may result to a market volume of US$93m by 2024. Statista also presented that the user penetration is 6.2% in 2020 and is expected to hit 6.9% by 2024., the average revenue per user currently amounts to US$8.67.

Moreover, data showed that the demand for SVoD had been increasing over the years which can be observed from the number of SVoD users and subscribers. The figure below presented that from 1.2 M users in 2016, the figure surged to 2.1M in 2019 and is expected to grow in the coming years.

One common strategy of SVoD providers is the offering of “Freemium” and “Premium” accounts. Freemium refers to free use of the platform within a specified trial period then the user has to pay should he or she wishes to continue using it once the trial period ends. Meanwhile, premium refers to the payment of a particular amount either pay-per-view or subscription fee for a period of time to access SVoD contents. When the service is offered at Freemium, it gains the attention of customers to try the service at no cost. The application of the law of demand can be observed in this industry practice. Since the price is lowered or none at all for freemium offering, consumers are willing to try the service.

However, in Freemium offerings, some of the SVoD providers put some restrictions on access to other content. The law of supply can also be observed here which showed that suppliers are willing to sell or provide less as the prices fall.

Some late entrants - SVoD providers entered the industry and competed with the pioneers by providing affordable and cheaper subscription fee with the goal of providing cheaper substitute like what Hooq did. In contrary, the Netflix announced last year 2019 its price hike due to its investment in more content and programs, but it only applies to U.S. and some areas in Latin America and the Caribbean. It was not applicable to the Asia Pacific markets which include the Philippines. The price hike was said to be driven by more investment of Netflix on content acquisition and creation.

The price is a significant factor in the shift in the demand and supply in the SVoD sector as discussed in the industry practices earlier. Other than price, the shift in the demand was driven by complimentary products, affordability of mobile gadgets, increased access to internet and the “tingi” or the culture of retail selling. Complementary products include internet connection. SVoD providers partner with telecommunication companies (telcos) or vice-versa in the delivery of their service. Partnership between the two is strategic because telcos provide the internet service which SVoD needs to deliver their services too. Meanwhile telcos benefit by gaining a competitive advantage in delivering unique on demand video contents provided to their subscribers for free during trial period which usually lasts for one to six months. Meanwhile, due to cheaper offering of mobile gadgets especially in the local market, Filipinos get to take advantage this affordability. According to International Data Corporation (IDC), data shows that there was a significant increase in the sales of mobile gadgets particularly smartphones with larger screens in 2017. This shows that prior to the remarkable employment rates and salary increases between 2017 and 2018, Filipinos have already shown capacity to afford mobile entertainment services. This is despite the fact that prepaid and postpaid services offered by the telco giants are under consistent scrutiny, not only for connectivity but also in terms of affordability. Moreover, another factor that led the increased demand in the Philippine market is the significant growth in number of Filipinos who has access to the internet. As of December

2017, statistics shows that around 67 million Filipinos are internet users or about 63% of the total Philippine population. Last is the “Tingi” or bite-sized payments. The culture of Filipino to purchase in smaller quantities rather than in bulk has been accepted by OTT firms. As such, short terms plans were crafted. This type of approach has been specifically tailored for Filipino markets. One-day, Three-day, and other short-term plans have been developed to suit the spending capacity of lower-income brackets.

On the supply side, other factors involved in the shift include the threat of substitution, buying power, and number of partnerships. First, threat of substitution drives suppliers to create or acquire through licensing more original or unique contents like films, documentaries and tv series. Any app that grabs the user attention is a threat, especially that the barrier for new entrants to the industry is not strong. Second, the buying power of the consumers plays vital factor. Consumers have many options from free to paid service. SVoD providers therefore must adjust to consumers behaviour of the Philippine market. Third is the number of partnerships with content makers, production houses, payment processors, telcos and even mobile device companies impacted the shift in supply. Creating a wide network of partners means providing more and better services to customers. Players in this industry are always in the lookout for upcoming trends and are always challenged by the changing interest and demands of viewers hence they need to keep up and partner with a network that can help them to deliver. In creating partnerships, Netflix has been one of the very successful. It reached out to several local production houses and media companies in Southeast Asia to easily grow the market and provide interesting content. Now, despite having the capacity to create their own content, they still partner with content makers as they know that creating one’s content can never get parallel with what a network can produce.

Because of the limited data about the SVoD sector since this is a newly emerged sector in the country, the exact price and income elasticity cannot be calculated. In general, the services offered in the SVoD sector showed that both price and income are elastic. Price is elastic because the demand changes with the price, as previously discussed. Meanwhile, one study conducted by Statista showed that the profile for the users by income can be seen as almost evenly spread. It can be described that 4 out of 10 subscribers are from the high-income bracket while both medium-income and low-income brackets have 3 out 10 ratios. Though the number of users spread among income brackets, it showed that more of the users belonged to the high-income bracket.

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