Pulse 838 Phase2 – Summary of Desk Research and Expert Interviews

Introduction

The information provided below is gleaned from a number of expert sources and will form the basis of a series of focus groups to be conducted to develop a thorough understanding of subscription and non-subscription TV attitudes, values, habits and practices. The knowledge obtained in these focus groups will be used to develop a number of hypotheses regarding cross price demand elasticities of a range of television broadcasting products and services.

Situation Analysis

The core pay TV market in South Africa consists of Multichoice (DStv), Starsat, Netflix, Amazon Prime Video, Showmax, Cell C black and DEOD. Multichoice pioneered digital satellite broadcasting in the mid 1990s and has dominated the market ever since, offering eight packages ranging in monthly subscription from R29 per month to R809 per month (excluding VAT), which could cost premium consumers almost R1000 per month if additional services are subscribed to. The owner of Multichoice, Naspers, recently announced that it would apply for a separate exchange listing for Multichoice. Recent report from Multichoice indicate a loss of around 140 000 Premium subscribers across Africa in the past two years, but an increase of around 1 500 000 Compact subscribers during the same period. The hypothesis may be drawn that Premium, which offers rugby, cricket and golf, is losing subscribers in the affluent areas due to fibre installation, and Compact, which features local and global football leagues, is gaining subscribers in areas where fibre has not yet been installed. It is the general perception that the Multichoice Premium package is driven by Supersport programming. During the same period it is estimated that Netflix added 100 000 subscribers to their base, which now

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numbers in the region of 500 000. A recent innovation from Multichoice enables the Premium and Compact packages to be accessed via the internet through the online and mobile application DStv Now. Multichoice has indicated a strategy to roll out DStv Now to consumers who do not subscribe to a DStv set top box, which will for the first time in South Africa make Multichoice content available to consumers via an internet Over the Top (OTT) connection only, without the additional subscription of a decoder.

Viewer Profile

The Pay TV subscriber market has evolved from content provider -driven choices to viewer -driven choices through the adoption of digital technology and delivery devices. Whereas TV programming once covered the market through a limited number of bouquets satisfying the total subscription market, the audience is now fragmented, made up of niches who view content on demand in time shifting viewing patterns. In this rapidly changing environment, there is a need to understand viewer demands and expectations. Younger viewers, millennials in particular, appear to indulge in binge viewing across a range of devices and have a lower appetite for sport. Older, lower income viewers with fewer options remain the bedrock of the traditional pay TV audience. Industry experts are unanimous that linear TV will remain part of the content consumer's bouquet of choices for the foreseeable future, and that internet only or OTT services will be an add on experience rather than a product replacement for the lower end of the market, primarily due to the high cost of data.

Sources of Disruption and Innovation

There is not universal agreement on the sources of disruption with opinions varying from content rights contestation, the impact of Netflix, the availability of smartphone mobile devices (especially in Africa), the installation of fibre in affluent areas and the expected arrival of 5G spectrum which will enable delivery of HD virtual reality at 1.7 gigs per second. There is evidence of cord cutting at the top end of the market due to availability of fibre. Other disruptive technologies include cheaper fibre to the lower end of the market, cheaper smartphones, zero-rated data and mobile screen-sharing technology, which may make the need for in-home decoders obsolete in the next10 years.

Impact of technology

The South African market is following the global trend from set top boxes to internet driven TV and video. Content providers can now access viewers directly without the need for content aggregators like Multichoice, due to the increasing incidence of smart phones and tablets as viewing devices. This has been accelerated by the installation of fibre in the wealthier neighbourhoods which in turn has facilitated an increase in non- linear TV watching. As a result there is an increasingly segmented market: the lower end who remain linear viewers, and the upper end with wifi at home and who prioritize data over subscription to enable multiple viewing options.

Linear TV remains critical for news and live sport viewers, with sport being seen as the driver of subscription TV. There is general consensus that big live events will remain the domain of linear TV channels or streaming providers. The general opinion is that linear viewing may diminish over time but will not die, it will shift to the portion of the market watching big reality shows and sport. However, if live sport is not a viewing priority then OTT is a consideration as a substitute for pay TV.

There is evidence that binge watching is increasing, particularly amongst singles and millennials. They are also episodic and prioritize spending month by month, which has implications for the content providers who are used to annuity income from fixed term contracts.

Programme selection will increasingly be sourced from catalogues with viewers making selections on demand. Under this scenario it is likely that the significant international brands like Disney will enjoy a competitive advantage.

A future scenario may see internet based video on demand for the top end of the market, mobile video on demand for the mass market and digital terrestrial television for other market sectors.

Impact of Content

Based on historical precedent, content in South Africa is primarily western, sourced from the USA. However, a movement to local content is predicted and is, in fact, already prevalent in the strategies of the main Pay TV providers. Given the costs involved, it is likely that collaboration of the content providers will be required, for example Multichoice combining with Netflix to service the African market.

Despite the above developments, live TV remains relevant, particularly for sports and the latest episodes of series. There is evidence of cord cutting, particularly amongst millennials, driven by data affordability, increasing free wifi locations, increasing incidence of smartphones and the growth of whatsapp and facebook. There is also evidence of cord shaving, primarily to top up the pay TV package with OTT.

Sourced from semi structured depth interviews with industry stake holders.